Date Due

~~APR 24 1958 D O~~	~~FEB 7 1963 M P~~
MAY 13 1958 D O	
ny 6 2 P	~~JAN 2 1964 M P~~
~~APR 19 1960 A T~~	
MAR 17 1961 H V	~~FEB 10 1964 M P~~
Apr. 3, 1961	
~~APR 3 1961 P N~~	~~JUL ... M P~~
	[redacted] A
~~MAY 1 ... D Y~~	
~~JUN~~	
~~APR 17 1962 B Z~~	
JAN 10 1963 M P	

23233 PRINTED IN U.S.A.

FREE TRADE, THE TARIFF AND RECIPROCITY

BOOKS BY THE SAME AUTHOR

PRINCIPLES OF ECONOMICS, Second edition, 1915

INVENTORS AND MONEYMAKERS, 1915

THE TARIFF HISTORY OF THE UNITED STATES, Sixth edition, 1914

SOME ASPECTS OF THE TARIFF QUESTION, Second edition, 1917

THE SILVER SITUATION IN THE UNITED STATES, Third edition, 1898

WAGES AND CAPITAL, 1896

FREE TRADE, THE TARIFF AND RECIPROCITY

BY

F. W. TAUSSIG, Ph.D., Litt.D.
Henry Lee Professor of Economics in Harvard University;
Sometime Chairman of the United States
Tariff Commission

New York
THE MACMILLAN COMPANY
1920

A461067

Set up and electrotyped. Published, January, 1920

PREFACE

The papers gathered in this volume have been published at intervals over a considerable period, and have been addressed to different audiences. Nevertheless they have a unity of purpose and plan which will serve, I trust, to justify their appearance in the present form. They cover the arguments commonly heard in the tariff controversy and more especially those urged in the course of recent debates in the United States. Most of them are addressed to the general public, and assume on the reader's part no special training in economics. All have now been revised with a view to connected and consistent presentation.

One topic of importance and of general interest is touched but briefly — the doctrine of protection to young industries. I have considered this topic in another book, "Some Aspects of the Tariff Question," with so much detail that it could here not be taken up otherwise than summarily without repeating in so many words what had already been said. The reader who may be interested is referred to the earlier book, in which are given the results of detailed investigations bearing on several questions of principle, among them the validity of the argument for protection to young industries. With this exception the present volume may be fairly said to cover, if not the whole of the tariff controversy, those phases of it which now are chiefly under discussion in the United States.

CONTENTS

FREE TRADE, THE TARIFF AND RECIPROCITY

I

THE PRESENT POSITION OF THE DOCTRINE OF FREE TRADE[1]

Forty years ago, the doctrine of free trade seemed to be triumphant, alike in the judgments of thinkers and in the policy of the leading countries. The school of Adam Smith and Ricardo had swept the board in Great Britain, and its conclusions, as set forth in John Stuart Mill's "Principles," were thought to represent the definitive outcome of economic inquiry. Among these conclusions, the one least open to doubt seemed to be that, between nations as between individuals, free exchange brought about the best adjustment of the forces of production; and international free trade was regarded as the one most potent means of increasing the efficiency of labor. In legislation, the triumph seemed to be no less assured. England, after a series of moves in the direction of lower duties, had at last taken the sudden plunge to free trade in the dramatic repeal of the corn laws in 1846. Not long after, France, by the commercial treaty of 1860 with England, had replaced the old régime of rigid protection and prohibition by a system of duties so moderate that the free trader might feel that his ideal, if not quite attained, yet could not be long delayed in complete realization. The treaty between France and England was soon followed by others of

[1] Presidential Address before the American Economic Association, December, 1904.

similar import between the various countries of Europe, spreading over all the Continent a network of reciprocal arrangements that greatly lowered the tariff barriers in the civilized world. In the United States a long period, from 1846 to 1861, had witnessed a marked relaxation of the protective system; and if the Civil War had brought a return to high duties, this might be ascribed to the financial exigencies of that crisis, and might reasonably be expected before long to give way once more to a moderate policy.

How different since then has been the course of events from what was confidently expected by the economists of 1860! Slowly but steadily the current has been reversed, and country after country has joined the protectionist ranks. The United States, so far from relaxing the high duties imposed during the civil war, has strengthened them and enlarged their range, and gradually built up a protective system the like of which was not dreamed of in earlier days. France, restive under the treaty régime of low duties, finally put an end to it in 1881, and then proceeded to build up once more a system of high protection. Germany took her decisive step in the same direction in 1879, and thereafter proceeded steadily to enlarge and elaborate her tariff barriers. Austria and Italy followed suit, and Russia has gone to the extreme in adopting protection. Even the old strongholds of free trade have become difficult to hold. Holland's latest tariff, while still disavowing deliberate protection, yet levies duties which, if ostensibly for financial yield, are inconsistent with a strict adherence to free trade. The leading English colonies, Canada and Australia, have ostentatiously abandoned that principle. England herself is in the throes of a discussion in which her policy of freedom, supposed to have been settled once for all, is attacked with vigor and effect; and who shall say what is to be the outcome of that discussion?

Not less striking is the change in temper among economic

thinkers. The whole structure of economic theory is undergoing revision. Many of the doctrines of Adam Smith and Ricardo have no more than an historic interest. It still remains to be seen, as this larger discussion goes on, just what the outcome will be in the reconstruction of economic teaching as a whole; but it is clear that, so far as the doctrine of free trade is concerned, enthusiasm has been supplanted by cautious weighing or open doubt. Half a century ago those German and French writers who advocated free trade were certain that the future was theirs: protection was the waning doctrine, and its advocates were hopelessly reactionary. At present, certainly in Germany and more or less in other countries, a large school has just the opposite feeling. Free trade would seem to be the waning doctrine. *Laissez-faire* and freedom have had their day, and the future belongs to the conscious direction of industry at the hands of the state. International free trade has no more sanctity or authority than any other part of the obsolete system of natural liberty, and the advantages or disadvantages of tariff restrictions are to be coolly weighed for each country by itself, in the light of specific experience.

In view of this unmistakable change in the general attitude, even the most convinced free-trader must feel called on to reconsider the question, and weigh once more the arguments for protection. Some such task I propose for myself: not indeed the formidable one of going over the entire subject afresh, but that of passing in review some of the arguments most commonly heard, and more especially those of which most is heard in our own country.

First of all, something may be said on those aspects of the controversy of which most is heard in popular discussion in this country. Here, as it happens, the situation is comparatively simple; for there is perhaps a nearer approach to a consensus of opinion on current popular arguments regarding protection than on any other subject in the wide field of

economics. As to most of the familiar arguments for protection, either all the economists are hopelessly in the wrong, or else the protectionist reasoning is hopelessly bad.

The mercantile view of international trade, exploded though it has been time and again, has a singularly tenacious hold. Even among the most intelligent writers in financial journals the familiar attitude is that of rejoicing in a gain of exports, regretting a gain of imports: rejoicing in an inflow of specie, bewailing its outflow; so familiar that probably the immense majority of persons who have never been systematically trained in economics take this point of view as a matter of course. Now, in a country whose monetary system is top-heavy, the relation of imports to exports may not automatically adjust itself without causing trouble. But the difficulty in such case, if there be one, is in the circulating medium, and it presents questions of monetary reform, not any problem as to the gain or loss from international trade. No doubt there are some other problems of real complexity in the relation of exports and imports. A country whose exports grow rapidly and are readily absorbed by foreign countries, may thereby secure its imports on more advantageous terms. This has probably been the situation of the United States, especially during the last thirty years. On the other hand, a country which depends on international trade for obtaining commodities essential for its economic well-being and not procurable at home, must look to its exports as the means whereby these essentials shall be secured; and such a country must have a watchful eye on the continuance and growth of its exports. This has doubtless been the situation of England during the last thirty years. But these are aspects of the theory of international trade quite beyond the ken of those who expound the virtues of protection to the general public. Here the exports are not regarded as the means of buying the imports: the exports are good in

themselves, the imports bad in themselves. We may apply to this sort of talk a well-known passage of Adam Smith's:

> "Some of the best English writers upon commerce set out with observing that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all sorts. In the course of their reasoning, however, the lands, houses, and consumable goods seem to slip out of their memory; and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply these metals is the great object of national industry and commerce."

So the every-day writers on foreign trade would admit at the outset that its only object is the same as that of all labor and trade: to increase the sum of enjoyable commodities, and to do so by getting the imports we consume, not by selling the exports we get rid of. But as their reasoning proceeds, the consumable commodities somehow slip out of their memory, and all their talk is of gaining by sales and of losing by purchase, of the great glories of swelling exports, and the ill omen for domestic industry of growing imports.

Other ancient fallacies have a no less tenacious hold. We hear it proclaimed *ad nauseam* that protected industries give the farmer a home market; as if there were created a new and additional market, and not a mere substitute for the foreign market. It is part of the same ancient fallacy that the farmer's "surplus" is talked of as if it must be so much waste unless legislation provides a market for it. We all know how Adam Smith, in the days when the theory of international trade was in the making, accepted the notion of a surplus; we all know, too, how easy it was for later writers to refute Adam Smith out of his own mouth. Again, we are constantly told that a tax on imports acts as a burden on foreigners, not on the domestic consumer; though here, as in other parts of the controversy, the proposition is more often an implied premise than an explicit conclusion. Not

least, how incessant is the blatant assumption that all prosperity is due to the protective system, and that disaster must ensue from any mitigation of its vigor. With some of these arguments, a nice analysis no doubt would bring into view conditions under which a measure of plausibility, nay of real validity, attaches to them. Thus there are conditions under which taxes on commodities are borne in part, occasionally even in whole, by the producer and not by the consumer. These are exceptional conditions; and they are as likely to appear under internal taxes as under customs duties. But such exceptions and qualifications, found for every social and economic principle by the discriminating thinker, are not among the subjects of every-day debate. There we find the simplest fundamental principles ignored, and the baldest errors repeated. It is inevitable, in the popular discussion of economic problems, that arguments of the crudest sort should come to the fore. But I confess to a sense of humiliation when our leading statesmen turn to reasoning easy of refutation by every youth who has had decent instruction in elementary economics.

I do not wish to linger on these commonplaces; yet, at the risk of being tedious, will turn for a moment to that phase of the controversy which for near half a century has been most conspicuous in our country — the effect of protection on wages. For years and years it has been dinned into the ears of the American people that high wages are the result of protection, or at least dependent on protection; that the maintenance of a high standard of living depends on the barrier against competing laborers of lower price, and that the workingman has a special and peculiar interest in the system of high duties. And yet I apprehend that here, too, the judgment of the economists would be with virtual unanimity the other way. The general range of wages in the United States was not created by protection and is not dependent on protection. The common talk about the sacredness of pro-

tection as a means of uplifting the workingman is mere claptrap.

No doubt there would be some difference in the way in which the economists stated the grounds of this conclusion. The theory of wages is one of their debatable fields, and some points are still to be settled. But for the purposes of the present discussion, these differences would not be material. It would be agreed by all hands that the fundamental cause of high wages is large productiveness of labor, and that so long as such productiveness exists a large reward to workmen will follow. The higher range of wages in the United States is due to the country's rich natural resources, and to the energy and intelligence with which these have been utilized. It may be that in certain directions the utilization of its resources has in some degree been hastened or made more effective by protection — of this more hereafter. It may be that in other directions this utilization has been retarded and lamed by protection. But in either case it is beyond doubt that, whether we had had in the past complete free trade or the most unqualified protection, production would have been more generous in the United States than in European countries, and wages higher; and it is no less certain that, whichever system we shall have in the future, we shall retain these same advantageous conditions.

But while the generally higher range of wages in the United States has nothing to do with protection, and probably not much to do with international free trade either, it does not follow that some among our laborers may not be dependent on the tariff barriers for their present wages in their present occupations. So far as the industries in which they are employed are really dependent on protection, the high wages paid in these particular cases are also dependent on protection. Looking at the dominant and normal conditions of industry in this country, we find high money wages and at the same time low prices of goods. Labor is efficient and goods

are produced abundantly; therefore, though the goods are sold at low prices, the gross money yield is large, the money returns are high, and high money wages are paid. But in those industries in which labor is less efficient, and goods are not produced in abundance, the gross money yield can not be high unless competing products are kept out or handicapped. In this sense, and to this extent, the maintenance of high wages in some industries depends on the maintenance of protection.

To say this is to say that here, as in all cases of vested interests, whether of labor or of capital, serious problems present themselves to the legislator. The protectionists naturally exaggerate the extent to which industries are in fact dependent on this system, and indeed go to the absurd extreme of maintaining that all successful industry and all high wages depend on their panacea. The free-traders belittle it, and often fail to see that in so doing they minimize also those consequences of protection which they think bad. The diversion of labor and capital to less productive channels — the ill effect which is the essence of the free-trade contention — is precisely in proportion to the range of industries in which the maintenance of high wages depends on protection. No doubt also the free-traders do not squarely face the difficulties of a transition to their system: the slowness with which capital and labor would have to be withdrawn from protected industries, and the prolonged period of unsettlement which would have to be undergone before final readjustment.

Before leaving this part of the controversy, I will note one other aspect of it — one that touches our pressing social problems. The industries in which labor is efficient, output is large, and wages are high, are by no means solely the agricultural industries. A great range of manufactures are of this sort; and these are our most characteristic manufactures. They are the manufactures employing workmen who are alert, intelligent, and what is popularly called high-priced.

They are the manufactures in which a larger output per unit of labor and capital comes from ingenious machinery, effective organization, efficient labor, nicely adjusted product. Side by side with these are others of a different type, in which the laborer is called on chiefly for the monotonous repetition of the simplest manual tasks, and in which even an ignorant man, or woman, or even child, can be easily taught the task. Here the temptation is inevitably to seek for cheap labor. The earth has been scoured to find docile, ignorant, pliable labor, which shall do for us our Helot's tasks. Inpouring immigrants by the million find work of this kind. They get wages which are lifted by the surrounding economic forces somewhat above the level of similar wages in Europe, but by no means up to the full American range. They are in a class by themselves, cut off in large degree from the general influences of the country. Their children, indeed, commonly feel these influences. They go to the public schools, learn the American standards and ways, and struggle with more or less success to rise to a higher stratum. But this depletion of the lower ranks is more than made good by the increasing arrivals of new shoals of immigrants. Thus we have, perhaps not permanently, but as a continuing part of our present social system, a vast mass of human beings doing for low wages work that is dull, monotonous, and according to our standards ill-paid.

Now I am by no means disposed to assert that the protected industries are identical with the industries employing labor of this sort. Not a few of the protected industries call for labor of the alert and intelligent kind. Many industries which have nothing to do with protection call for the dull, weary, unskilled work. Such is the mining of anthracite coal, whose peculiar conditions have of late been so conspicuously brought into notice; such is the cotton manufacture in the South, where during the last twenty years a vein of this low-lying human material has been unexpectedly dis-

covered and exploited. But a good share of the protected manufactures are in this class. Large parts of the textile manufactures in the Atlantic States belong here, and are in marked contrast,— to give one example — to such an industry as the shoe manufacture. I cannot but believe that by increasing the opportunities for the utilization of labor of this sort the protective system has added to our social and political difficulties. The safe absorption and remaking of these unskilled and uneducated masses is largely a question of degree. A certain amount we can make over; too many of them would swamp our institutions. No thinking man can view without concern the rapid increase in their numbers, or believe that it is for our social or moral advantage to add by legislative policy to the range of industries which create a demand for them.

I pass now to more difficult matters: to some phases of the controversy concerning which economists are much less in accord, and on which something is to be said on both sides. And here I will begin with two lines of reasoning that are not commonly considered together, but which seem to me to involve essentially the same question of principle. One of them is the argument against dumping; the other is the argument for the protection of agricultural products against the competition of new countries.

"Dumping" I take to mean the disposal of goods in foreign countries at less than normal price. It can take place, as a long-continued state of things, only where there is some diversion of industry from the usual conditions of competition. It may be the result of an export bounty, which enables goods to be sold in foreign countries at a lower price than at home. It may be the result of a monopoly or effective combination, which is trying to keep prices within a country above the competitive point. Such a combination may find that its whole output can not be disposed of at

these prices, and may sell the surplus in a free market at anything it will fetch — always provided it yields the minimum of "prime cost" or "direct cost."

Now, if this sort of thing goes on indefinitely, I confess that I am unable to see why it can be thought a source of loss to the dumped country; unless, indeed, we throw over all our accepted reasoning on international trade and take the crude protectionist view *in toto*. If one country chooses to present goods to another for less than cost; or lets its industrial organization get into such condition that a monopoly can levy tribute at home, and is then enabled, or compelled by its own interests, to present foreign consumers with goods for less than cost — why should the second country object? Is not the consequence precisely the same, so far as that other country is concerned, as if the cost of the goods had been lowered by improvement in production or transportation, or by any method whatever? Unless there is something intrinsically harmful in cheap supply from foreign parts, why is this kind of cheap supply to be condemned?

The answer seems to me to depend on the qualification stated above — *if this sort of thing goes on indefinitely.* Suppose it goes on for a considerable time, and yet is sure to cease sooner or later. There would then be a displacement of industry in the dumped country, with its inevitable difficulties for labor and capital; and later, when the abnormal conditions ceased, a return of labor and capital to their former occupations, again with all the difficulties of transition. It is the temporary character of dumping that gives valid ground for trying to check it.

A striking case of this sort has always seemed to me to be that of the European export bounties on sugar, which for so long a period caused continental sugar to be dumped in Great Britain. These bounties were not established of set purpose. They grew unexpectedly, in the leading countries, out of a clumsy system of internal taxation. They im-

posed heavy burdens on the exchequer, as well as on the domestic consumer, in the bounty-giving countries; and they were upheld by a senseless spirit of international rivalry. Repeated attempts to get rid of them by international conferences showed that the cheap supply to the British consumer, and the embarrassment of the West Indian planter and the British refiner, rested not on the solid basis of permanently improved production, but on the uncertain support of troublesome legislation. It might well be argued that these conditions would come to end sooner or later. The longer the end was postponed, the worse was the dislocation of industry and the more difficult the eventual return to a settled state of things. No doubt these were not the only considerations that in fact led Great Britain, the one great dumping-ground, to serve notice that she would impose import duties equal to the bounties unless the bounties were stopped. Perhaps this decisive step would have been taken even if it had appeared that the bounties were to continue as a permanent factor in the sugar trade. But it is in their probably temporary character that the sober economist finds justification for the policy that led to their abolition. At all events, there is tenable ground for arguing that Great Britain, in causing them to be stamped out, acted not only in the interest of the much-abused consumers of sugar on the Continent, but in the permanent interests of her own industrial organization.

The other familiar case of dumping is that of monopoly. Here too it may be maintained with much show of reason that the diversion from the normal conditions of industry is but temporary. Can any country be persuaded in the long run that it is for its advantage to support or aid, by protective duties, or by any other method, a monopoly which mulcts the domestic consumer and thereby is enabled to make presents to the foreigner? Yet the strength of vested interests, the curious conservatism of partisan feeling, per-

sistent sophistry about giving employment to labor and turning the wheels of industry, may keep the practice going for a long period. Any measures that would bring it to an early end should be welcome alike for the country that dumps and for that into which there is dumping.[2]

I turn now to another phase of this same question. The competition of the United States and of other newly opened countries has depressed the prices of various articles of food in Europe; has restricted, or threatened to restrict, the volume of agricultural production; and has caused an increasing drift of population to manufacturing industries. But these conditions, it is maintained, are but temporary. The new countries will not remain new. Their population grows rapidly, and their fresh lands are fast being absorbed. It is to be expected that sooner or later their numbers will be increased, and their own food supply increasingly drawn on, until they have no food for export. The countries to which this food supply had been sent, and whose industries had been adjusted on that basis, will find readjustment to the old basis inevitable. First a large part of their population is transferred from agricultural to manufacturing industries, and then must be transferred back to agriculture again. Each process of transition is necessarily slow and possibly painful, and the suffering and losses outweigh the

2 No doubt in weighing the advisability of such measures, it would be necessary, and at the same time extremely difficult, to ascertain whether the dumped article really was exported at an abnormally low price. It is familiar knowledge that the Steel Corporation, for example, is selling some articles for export at less than the domestic price. But it is quite possible that the export price, while less than the domestic price, is not really below the level of normal cost. So much the worse, doubtless, for the consumer at home; but this is not a matter that concerns the foreigner, who buys the steel at no more and no less than a reasonable figure. It seems to be at least doubtful whether the foreign sales are in fact likely to be made for any considerable time at a price below the long-run cost of production. If not, the question which presents itself is the ordinary one of protection, not the peculiar one of a temporary dislocation of industry.

temporary benefit during the comparatively brief period of cheaper food supply. Is it not wiser to protect agriculture for a while, and keep industry in its even and permanent course?

Here again the answer turns on the temporary nature of the situation. If it were clear that the cheaper food supplies would cease to be available after ten years, or twenty years, there would seem to be good grounds for resisting this American invasion. The longer the period over which the new conditions are likely to last, and the more uncertain their end or the stages by which their end will be reached, the weaker is the case for resistance. Now all the indications are that the relations between new countries and old countries, as they have developed during the last half-century, will endure for a long period — a period not to be measured by years or decades, perhaps not by generations. Many have been the books and pamphlets published during the last twenty years, foretelling that the end was near and that the opening of new sources of supply had ceased. Yet the building of new railways and the general advance in transportation, as well as the discovery of regions not before thought available, have accentuated the present situation of the modern world, and have postponed to an indefinite future the predicted reaction. To attempt now to make provision for such an indefinite future is at the least very doubtful policy. What will be the relation, a century hence, between the old countries and the countries now new; what will then be the sources of food supply for the civilized world; what will be the process by which the old countries fall back again on their own resources — if indeed they do fall back — these are questions which the statesmen of the present day had best leave to the distant successors who may eventually have to deal with them.

A curious argument, connected with this set of considerations, has been advanced by one of the most distinguished

economists of our time. A revival of the more extreme phase of the Malthusian reasoning, it looks to the influence of more abundant food supplies on the growth of population and the standard of living. Briefly, the reasoning is that cheaper food will simply cause an increase of numbers, and a lowering of the standard of living. When food thereafter becomes dearer, either in occasional seasons of dearth or — what is supposed to be probable — as a permanent matter in the not distant future, there will be nothing to fall back on. The larger population which the temporary period of plenty had called out will suffer the more when the conditions of limited supply return. This is just what Malthus maintained a century ago. But it is also just what a century of economic and social history has disproved. I am by no means of the opinion that the century's history has disproved the general Malthusian theorem — the tendency to pressure and the need of restraint. But the particular corollary as to the inexpediency of cheaper food seems to be quite untenable. The causes of restraint or lack of restraint in multiplication are much more complex than it assumes. Notable among them are the advance of education and intelligence, and the desire and opportunity to rise in the social scale, which Malthus himself believed to be the *vis medicatrix* of the community. Where intelligence and ambition are present, material well-being has a favorable effect of a cumulative kind: a fairly high standard of living, once set going, tends not only to maintain itself, but to rise. Something of a lift must be given before an independent upward movement can maintain itself. The general rise in the standard of living which the leading countries have secured in the last half-century, and which has been due largely to cheaper supplies of food and materials from the new countries, has served to give the needed lift.

I turn now to that course of reasoning which has long

been among the economists most effective in favor of protection: the argument for protection to young industries. It goes by other names and uses other phrases. It is sometimes called educating or nurturing protection. In popular controversy it takes the form of the contention that protection, while it may raise temporarily the prices of the goods protected, in the long run lowers them. Throughout, it rests on the assumption that a country does not secure without conscious effort or considerable sacrifice those industries which in the long run are most advantageous for it.

Let us consider first the probable range in the application of the principle. It is commonly stated to be applicable to manufactured goods only, not to raw materials — including under the term "raw materials" most agricultural products. Such was the view of List, the German economist, who has given the most elaborate and perhaps the most effective statement of the argument. Indeed it is only from this point of view that there is any strong distinction between duties on manufactures and those on raw materials. No doubt, something may be said, by way of special objection to taxes on raw materials, that they accumulate as profits are heaped up on them in the successive stages through which the commodity passes before reaching the consumers' hands. But this makes only a difference of degree, and perhaps not a great difference of degree, between raw materials and most manufactures; whereas, so far as the young industries argument goes, there is a difference in kind. Nature has settled what sorts of raw materials a country is fitted to produce. No encouragement from protective duties, for example, can so stimulate the growth of forests in the United States as to bring us in the end cheaper timber. No such stimulus can cause the climate of the country to become better adapted for wool growing, or give it the peculiar advantages which the interior of Australia has for this form of pastoral indus-

try; or make Louisiana as well fitted for growing cane sugar as Cuba.

Nevertheless, it must be admitted that even so far as this special argument for protection is concerned, there may be sometimes as good reason for duties on raw materials as on manufactures. Mining operations usually involve an initial stage of experiment and uncertainty, and almost always call for a heavy investment of fixed capital. The history of the iron industry in the United States and Germany, suggests at least the possibility that a stage of artificial and expensive stimulus may be followed by an eventual attainment of developed and cheapened production. Agriculture seems to present such possibilities in less degree; pastoral industry still less; and forestry least of all.

Unlike most other parts of the controversy between free trade and protection, the young industries argument connects itself with few other questions of economic theory, and is to be considered chiefly in the light of specific experience. The benefits of imports and exports, the relations of domestic and foreign industry, wages, foreign cheap labor, surplus products, over-production, dumping — these topics at once spread over into the general field of economics. Not only do they thus enlarge, but they can be disposed of chiefly by that mode of general reasoning from comparatively simple premises which still remain the most valuable tool at the disposal of the economist. But whether protection to young industries will or will not have good effects, is simply a question of probability for the given case. Precisely the opposite result from protection has not infrequently been discovered or supposed to be discovered. It has been said that protection, so far from leading to improvements and eventual cheapening, leads to the retention of antiquated and inefficient methods of production and so to continued enhancement of prices. There is good ground for believing that the

long continued protective régime in France during the first half of the nineteenth century had ill results of this kind. One of our ardent free-traders, the late David A. Wells, repeatedly maintained that the same consequences had appeared in the United States. His conclusion may have been justified by what happened during the period of abnormal industrial conditions that followed the Civil War; yet I doubt whether the experience of the United States as a whole supports it. The truth is that either result may ensue. Among an active and enterprising people the diversion of industry into new channels may lead to progress, improvement, and eventual gain; whereas in a timid and stagnant people the stimulus of competition from abroad may be necessary to rouse them to their best efforts. The problem of protection to young industries thus offers an especial field for the inductive and historical method in its stricter sense — the patient investigation of particular cases, and the possible final construction of an edifice of truth, by the slow gathering of fragments of knowledge.

For the purpose of aiding legislation in our own day, however, investigation of this sort must be confined to modern experience — the experience, say, of the nineteenth century. Investigations on earlier periods, on the industrial régime of the Middle Ages, the system of Colbert, the early protective policy of Great Britain, the paternalism of the rulers of Brandenburg and Prussia, will teach us little for the problems of the present. The value and interest of such investigations are not to be denied. We have discarded certain notions of the earlier economists as to the necessary harmfulness or futility of the conscious direction of industry, and know that we have still much to learn about the causes of progress in the past. But modern conditions differ radically from those preceding the nineteenth century, and have changed fundamentally in the last fifty years. Technical education has been so improved and diffused as to

make immensely easier the adoption anywhere of a new process. All the means of communicating knowledge, from the printing press to the telegraph, serve to spread rapidly information about changes in the arts. Restrictions on the sale or export of machinery have disappeared. Capital is abundant, and is constantly and eagerly seeking fresh employment. The conditions are very different from those that had to be faced by the undertaker of the seventeenth and eighteenth centuries, even of the first half of the nineteenth. Whatever economic history can tell us about his troubles and obstacles, it can teach little as to the extent to which his successor in modern times needs the prop of legislative aid in new ventures.

Looking now at modern experience in protection to young industries, what result do we find? The answer, alas, is not certain. Sometimes we seem to find a degree of success, sometimes of failure. The besetting difficulty of all purely inductive inquiry in the doings of man is ever present. We can not isolate causes. We can not apply protection to a country, and make sure that everything else remains unchanged. A protective duty may be followed by an increase of domestic production, by a new and independent industry, by an eventual benefit to the community in the way of cheaper commodities; but the question always will remain whether other causes have been at work, and whether the same result would not have ensued without the tariff in favor of the young industry.

Contrast the history of Germany and of France. For the whole period up to 1860, France had a restrictive régime of the greatest severity. Yet I have seen no evidence adduced that during that period of rapid industrial advance in the world at large, any gain was secured by France in the way of successfully establishing an industry that was able to hold its own without aid. In Germany, on the other hand, the trend of opinion among competent observers seems to be

that at least during the second third of the century the tariff policy of the Zollverein, though much more moderate than that of France during the same period, nurtured German manufacture to advantage. The establishment of free trade within Germany by this beneficent customs union opened great possibilities of internal growth, which were more easily turned into realities by a period of shelter from foreign, especially English, competition. During the last third of the nineteenth century, Germany's industrial growth was one of the remarkable phenomena of our time; but this growth began under the moderate protectionist régime of the Zollverein, and, whether or not promoted also by the accentuated protection that began in 1879, has certainly been much affected by other factors also, to some of which I shall presently refer.

In the United States we find similarly conflicting evidence. Some researches of my own have led me to believe that on the whole, the first growth of manufactures in this country, in the early years of the nineteenth century, was advantageously promoted by restrictions on competing imports. As we come nearer to the present time, the case in favor of protection becomes more and more doubtful. In the policy of extreme and all-embracing protection which has been gradually built up since the Civil War, it would have been surprising indeed if we had not scored a few hits. Where you send innumerable shots promiscuously in a given direction, some few of them are likely to hit the mark. But specific and unbiased inquiry on those points is sadly needed, and offers a promising opportunity for scholarly investigation. It is obvious that there has been not only an enormous growth of manufacturing industry, but a great improvement in methods of production and a growing independence of foreign competition. How far this gain has been carried to the point which proves that the community is now better off than it would be if it had depended on foreign supply; and

how far such a gain, further, may have been due to causes quite independent of encouragement in the way of protection,—these are questions which certainly can not be disposed of without much painstaking and unbiased inquiry, and for which even such inquiry very likely would yield no clear-cut answer.[3]

Our conclusions as to the general validity of the argument for protection to young industries thus have an uncertain ring. Yet it must be added that while such protection can not be proved useless, there is at least one striking phenomenon which proves it to be not indispensable. That phenomenon is found in our own country. Here we have seen, under a régime of the most absolute free trade, the gradual and steady growth of manufactures in communities that a few decades ago were exclusively agricultural. In our Southern states the cotton manufacture has grown and prospered in face of the competition of the established industry of New England. It found in the South advantages of situation, and a labor supply which proved amenable to profitable exploitation. But these advantages could not be utilized without an initial period of experiment and uncertainty, and during this the older industry had all the advantages against which protection is supposed to be necessary. Even more instructive is the transformation of the great Central region — the states north of the Ohio and east of the Mississippi. Here we have seen, under a régime of complete free trade within the country, the steady growth of manufactures. When the field was favorable for a new industry, whether from rich natural resources, from advantage in location, or from ingenuity and enterprise among the leaders of industry and the rank and file, there the in-

[3] In my book on "Some Aspects of the Tariff Question" (1916), I have given at some length the results of investigations from this point of view on the history of the iron industry, the sugar industry, and the textile manufactures.

dustry has expanded and flourished, unchecked by the competing establishments of the older states. Some of the industries that so sprang up in the Central region have been of the kind that felt the stimulus of protection against international competition. Some have been quite independent of this stimulus, the question being not whether they would spring up within the country, but where within the country — whether along the sea-board or in the interior. In either case, the full competition of the older regions of our own country has been felt by the newer regions. The diversification of the newer regions has nevertheless proceeded smoothly and steadily. That diversification continues and will continue, notwithstanding the most absolute free trade throughout our own borders. No artificial fostering as against the manufactures of the East has been possible; though, if possible, it would doubtless have been asked. Yet the growth of manufactures in the Central region has been perhaps the most striking change in the industrial structure of the country during the last generation.

These familiar facts must make us hesitate before ascribing to legislative interposition too much effect on the development of new industries or on the general course of economic progress. I have already referred to the difficulty of disentangling the complex forces that bear on economic progress, and will not pretend to offer anything in the way of proof for what I have further to offer as regards the relative weight of different factors. Briefly stated, my belief is that the general structure and spirit of the social body are much more important than specific encouragement to this or that industry. Any detailed statement of the grounds of this opinion would carry us into fields much more speculative than those which have been considered in the preceding pages; and it must suffice to illustrate rather than support

it from a brief consideration of some aspects of social and economic history.

First there is the case of England. Clearly several causes contributed to the remarkable economic advance of that country during the eighteenth and nineteenth centuries. Her insular position preserved her from the wars which devastated the Continent. Her indented coast cheapened internal transportation from an early date. Her great mineral resources supplied the foundations of the modern workshop. The protective system of older days is supposed to have nurtured her industries until they became independent — with how great effect, is the debatable question. But most important of all has been the atmosphere of freedom, and the clear avenue to conspicuous success which has been open to all who were capable and strong. Political freedom came first, and soon was supplemented by industrial freedom. Hence the all-pervading spirit of ambition, resource, enterprise. To this spirit a stimulus of incalculable strength has been given by the curious development of the British social hierarchy. Nowhere has the aristocracy held its place so strongly in the esteem of the rest of the community, and nowhere has admission to that aristocracy been more free. The rich merchant, manufacturer, banker, mounts readily on the social ladder. Given plenty of riches, a little time, and he or his descendants become associates of peers, soon become peers themselves. In the eighteenth century Adam Smith, remarking on the differences between England and France, mentioned France as a country where trade was in disgrace, and England as one where it was highly respected. The materialism of the British aristocracy and the snobbishness of British society have long been topics for the satirist. But materialism and snobbishness have enlisted the strongest of social motives, the undying love of distinction, in the direction of economic initiative and industrial advance.

Factors of the same kind have been powerful in our own country. Every career and every degree of success have been open to all; open not only under the law, but under the mobile conditions of a thoroughly democratic community. The most obvious avenue to distinction has been the attainment of wealth. Large enterprises, whether in trade, manufactures, or transportation, have long enlisted the most capable intellects of the country. Every opportunity for the conduct of business on a large scale has been eagerly scanned with keen eyes by the captains of industry. Add to this the early development of a high degree of mechanical skill and ingenuity, and natural resources which are varied and abundant to an unusual degree, and you have conditions under which legislative stimulus is at best of secondary importance. The evidence seems to me conclusive that the United States under any tariff system would have become a country with varied industries and with highly developed manufactures. The protective duties have only affected the degree and the direction of that development.

Still another factor deserves to be noted. Not only the spirit of freedom and enterprise within the community has its effect, but that spirit with reference to other communities also. The political position of a country and its martial success seemed to have a reflex effect on the industrial success of its citizens in time of peace.

Here the recent development of Germany is opposite. Her industrial advance during the generation that followed the Franco-German war is one of the striking phenomena of our time, and leads naturally to speculation on its causes. No doubt, as in all such cases, these causes are varied. The thorough organization of popular education and of scientific education is one cause. The stimulating effect of free trade within the country, as established by the Zollverein since 1834, is another: though this gain had been enjoyed by France throughout the nineteenth century, and by England for

centuries before. Much is due to the whole change in the political and social atmosphere which came with the crumbling of petty absolutism, and which was consummated with the foundation of the German Empire. But to all this must be added the new spirit which came over the country after the war of 1870–71. Germany emerged from the conflict with a new sense of strength and confidence. The feeling communicated itself to the field of peaceful industry. Vigor, enterprise, and boldness showed themselves. Large enterprises in new fields were launched and successfully conducted, and great captains of industry came to the fore. A spirit of conquest in all directions seems to have spread through the people, bred or at least nurtured by the military conquest.

Is it fanciful to suppose that consequences of the same sort have appeared in other countries also after victorious wars? England emerged from the Napoleonic wars with a great feeling of pride and power. She alone had never yielded to the great conqueror. The period which followed was that of her most sure and rapid economic advance. She then established the hegemony in the industry of the civilized world which she maintained through the nineteenth century. The northern part of the United States felt a similar impulse after the Civil War. That struggle had been on a greater scale than was dreamed of at the outset, and its outcome proved the existence of unexpected power and resource. Is it an accident that the ensuing years showed a spirit of daring in industry, and sudden and successful activity in commercial enterprises?

No one is more opposed than I am to all that goes with war and militarism. It is with reluctance that I bring myself to admit that the same spirit which leads to success in war may also lead to success in the arts of peace. Yet so it seems to be. Men being what they are, nothing rouses them so thoroughly as fighting. The temper which then pervades a community communicates itself by imitation and emula-

tion, and shows itself in all the manifestations of its activity. A great war lifts the minds of men to large undertakings, and takes its place with other factors in stimulating the full exercise of the powers of every individual.

I am in danger of straying far from the subject in hand. Yet the digressions to which the argument for protection to young industries has led may serve to enforce one conclusion to which the open minded consideration of the whole free-trade controversy must lead the inquirer: namely, that the effects of tariff legislation are commonly much over-estimated. Difficult as it may be to separate the causes of industrial growth and to measure their relative weight, it is clear that the factors are many and various. The effects ascribable to a protective system, either for particular industries or for general economic growth, are among the subordinate phenomena, and far from having that transcendent importance so often proclaimed by its ardent advocates.

Let me turn now to an opinion, or point of view, to which reference was made at the outset: the opinion that after all on this subject there is no fundamental principle. A set of writers, especially among contemporary German economists, take what purports to be a severely judicial attitude. In their view there is no established theory, and no reason for ascribing greater validity to the doctrine of free trade than to that of protection. It is all a matter of advantage or disadvantage in the given case. Some countries may prove on inquiry to need free trade, some protection. A policy of opportunism is the only sensible one, and the controversies about theories of international exchange turn on barren abstractions which do not touch the concrete facts of industry.

I confess to little patience with this attitude. It assumes to be large-minded and judicial, and a certain tinge of contempt for the old-fashioned theorists often goes with it. Yet

in truth it usually rests on inability or unwillingness to follow the threads of severe reasoning. No doubt it is true that the concrete circumstances of a country must be examined and considered before we apply to it a given policy. But it is none the less essential to make up our minds as to the principles on which the policy should rest. No doubt it is especially true that in weighing the chance of the advantageous application of protection to young industries, the actual conditions of each case and the prospects of success should be carefully studied. But it is none the less necessary to reflect what are the foundations and limitations of such protection and what are the real tests of success. On all such questions of principle we find often, too, a sad lack of clear-cut reasoning among our German colleagues. This defect does not show itself solely in the protective controversy. It appears in almost every part of the economic field, as soon as the more difficult problems are touched. On the theory of value, of distribution, of prices and the value of money, as well as on that of international trade, there is in many current manuals and text-books a pseudo-judicial attitude, which admits some merit in this position as well as in its opposite, and opines that such and such a view must indeed be considered but must not be pressed too far; with further double-facing expressions that end in leaving the reader quite in the dark as to the author's conclusions on the heart of the matter.

It is easy to account for this stage of thought, especially among writers of the second rank. In many directions economic theory is being re-fashioned and on many topics there is not yet a consensus of opinion. At least there does not appear to be such a consensus; though the differences among economic thinkers on the large questions of principle are much less fundamental than they are sometimes made to appear. Yet it is not to be denied that on some deep-reaching topics, especially in the theory of distribution, economic theory is now in a stage of transition. As it happens, how-

ever, there has been least attempt at change, and there is least occasion for change, in the theory of international trade. In that part of the subject, the edifice whose foundation was laid by Adam Smith and his contemporaries, and which was further built up by Ricardo, Senior, and the younger Mill, remains substantially as it was put together by these ancient worthies. Something has indeed been added by recent writers; yet nothing that calls for a remodeling of the old structure. On the nature of international trade, on its peculiarities, its working machinery in the foreign exchanges and the flow of specie, its connection with the drift of labor and capital to different industries, its bearing on the demand for labor, and not least the effects of restrictions in the way of taxes — on all these topics the old doctrines have never been seriously shaken. Qualifications of one sort and another — deviations from the régime of freedom such as Adam Smith himself conspicuously enumerated — contingencies under which commercial blows may be so planted as to convert an opponent into an ally — these have long been admitted. Certain refined and ingenious trains of reasoning have been brought forward, too, of late years, regarding the effects of protective duties on the distribution of wealth and on the ultimate elements of social well-being. They connect themselves with some of the more recent speculations in economic theory at large. Like these, they have had no effect, as yet at least, outside the small fringe of scholars and teachers, and no very marked effect even within that fringe. A discussion of them would carry this address far beyond the permissible limits. At best, they suggest only still further qualifications and still other possible exceptions, and they leave intact the core of the classic theory of international trade. That theory, in its essentials, holds its own without a serious rival.

This being the case among the thinkers, the question naturally arises as to how it happens that the opposite theory, or at least the policy based on a very different theory, holds its

own in the field of legislation. Some consideration, however brief, must be given to this question in any inquiry as to the present position of the doctrine of free trade.

There is no one explanation of the strong hold which protection now has and bids fair for some time to maintain. The effectiveness of its appeal to the every-day man has already been noted. The arguments about employment, labor, domestic industry, home markets and foreign markets, rejected though they have been in all respectable economic writing, emerge again and again. They will not down, and they create a set of prepossessions favorable to protectionist legislation. But in European countries (for the moment, I have not the United States in mind) its actual adoption has been immensely promoted by two other factors. One is the competition of new countries in agricultural products. The other is the growth and intensification of national feeling.

The effect of the competition of new countries is obvious enough. With the cheapening of transportation, not only England, but France, Germany, and the other countries of Western Europe have been invaded by supplies of cheaper food and raw materials. The agricultural classes have felt the pressure of foreign competition. Formerly indifferent or even hostile to high tariffs, they have now been led to join in the demand for protection against cheaper foreign supplies. In England the agricultural interest has always been restive under free trade. In France and Germany, with the new democratic conditions, its influence now constitutes a strong political force against the application of that doctrine.

Not less important, however, is the sentiment of nationality and its unfortunate counterpart, the sentiment against foreigners. Of the ennobling and beneficent effect of national feeling there is no need to speak. Its less favorable aspects unfortunately are most conspicuous in relation to our present subject. Cobden and the other English free-traders of half-

a-century ago looked forward to a coming era of peace among nations, strengthened by the links of friendly exchange and mutual benefit. How sadly have these hopes been disappointed! Militarism has become no less strong than it was, even stronger; and every European nation has held itself habitually in readiness for war.

Even the sober economist, unmoved by sentiment, and looking solely to the direct and traceable consequences of this state of things, must admit that here is a situation that does not fit into the free-trade ideal. Great Britain, for example, depends for feeding her people on foreign supplies; and it is an inevitable consequence, however regrettable a one, that she must have a powerful navy as security against starvation in case of war. No doubt the balance of material gain is in her case clearly in favor of free trade: it is cheaper to have a navy, even a huge and expensive one, than it would be to support her population at home. But, as international relations now stand, there exists this expense to be offset against the gain. In Germany at the present time the same set of persons who have advocated the development of Germany as an exporting country and a "world-power," have demanded a great navy. Oddly enough, these same persons are protectionists also. But if a navy is needful to safeguard exports, it is no less needful for the imports which must also come.

It is but another phase of the same drawback against the gain from international trade, that it is liable to interruption. A war between the great countries, such as is always possible and often seems imminent, would greatly hamper foreign trade, conceivably destroy it. The greater the previous extension of trade, the more complete the overturn of commerce; and he who looks on war as sooner or later inevitable, and perhaps as not unwelcome, is not loath to have the industries of his country as self-contained and as self-dependent as possible.

The national and militant feeling, however, has effects on public opinion far beyond such deliberate weighings of gain or loss under war and peace. It rouses a whole train of sentiments which run against trade with other countries. It fosters international rivalry in every sphere. Deliberate and accurate weighing of the benefits of foreign trade, such as it is the business of the economist to undertake, probably determines the opinions of a very small circle indeed. The state of mind of the immense majority is settled by their general feelings and prepossessions. These are in favor of the native country and against foreigners; in favor of home markets and home products, and against foreign competition. Add to this the strong appeal which protectionist reasoning makes to the instinctive prejudices and the inherent selfishness of the every-day man, and you have an explanation of its continued hold.

In the United States the situation is different from that in European countries. Here we have in recent times no industrial invasion from foreigners; we are ourselves the invaders. The feeling of nationalism is doubtless strong, and has promoted protection effectively; but the peculiar fervor which militarism adds to it we have not experienced, unless it be under the conditions of the last few years. The maintenance of our protective system — I will not say of any such system, but of the extreme and intolerant protection which we have developed — seems to be explicable chiefly on historical grounds. Certainly its beginning is not to be ascribed to any deliberate choice. The system as it now stands goes back to the Civil War, and is the unexpected outcome of the heavy duties then suddenly imposed. It has maintained itself chiefly by the effects of custom and iteration. The industries of the country have become habituated to it; and what is no less important, public feeling has become habituated to it. As in England free trade has been the accepted doctrine from sheer force of use and habit, so in

the United States protection has been the accepted doctrine. And, needless to say, just as continued material progress strengthened the hold of the accepted system in England, so it has strengthened the hold of the opposite system in the United States. The appeal to let well enough alone is always effective. The economic critic may see in other directions abundant explanation of our well-being, and may say that a country with such resources, such institutions, and such a population would have prospered under any commercial policy. But the fact of prosperity tells powerfully in favor of the legislation that in fact has been followed. It is not probable that any substantial change of policy will be made until this correspondence has been broken. When evil days come, as sooner or later come they doubtless will, then placid acquiescence in the existing order of things will no longer bolster up the protective system, and the time will be more propitious for a deliberate overhauling of accepted notions and beliefs.

In conclusion, then, it may be said that the fundamental principle of free trade has been little shaken by all the discussion and all the untoward events of the past half-century. But its application is not so easy and simple as was thought by the economists of half-a-century ago. A principle can be stated in clear-cut terms, and an answer of yes or no can be given with regard to it. The mode of its application, however, raises questions of *pro* and *con,* and often involves a balancing of conflicting principles. The question of principle none the less remains important, and important for practical purposes. He who is convinced that the use of alcoholic liquors is overwhelmingly harmful may be uncertain, in the world as it is, whether to favor absolute prohibition, or government management, or private trade under license and control. Yet if he has the question of principle clearly settled in his mind, he will combat steadfastly popular errors about healthful effects of alcohol and will welcome

every promising device towards checking its use. He who believes that war is evil and wasteful, and militarism preponderantly bad in its spirit and effect, may regretfully admit that armies and navies must be maintained and much labor misapplied in the making and using of instruments of destruction. Yet he will oppose every unnecessary increase of armament, avoid every occasion for stirring others to rivalry in warlike preparation, and welcome every opportunity for the peaceful settlement of disputes between nations. So he who believes that international trade is but one form, and no peculiar form, of the division of labor, and that like all division of labor it is preponderantly beneficial in its effects, may admit that its application in a given country raises problems not to be disposed of by mere appeal to this principle alone. Some of the qualifications have been considered in what has preceded; and others will readily occur to you, such as the demands of public revenue, a needful regard for vested interests, the political and social effects of trade within the country and without. But in considering any question of concrete commercial policy, it is necessary first to know whether a restriction on foreign trade is presumably a cause of gain or loss. Is a protective tariff something to be regretted, for which an offset is to be sought in the way of advantage in other directions, or something which in itself brings an advantage? The essence of the doctrine of free trade is that *prima facie* international trade brings a gain and that restrictions on it presumably bring a loss. Departures from this principle, though by no means impossible of justification, need to prove their case; and if made in view of the pressure of opposing principles, they are matter for regret. In this sense, the doctrine of free trade, however widely rejected in the world of politics, holds its own in the sphere of the intellect.

II

ABRAHAM LINCOLN ON THE TARIFF

A MYTH [1]

Those who have followed the campaign literature on the tariff during recent years will have become familiar with a phrase attributed to Abraham Lincoln. The following version is taken from Curtiss's *Industrial Development of Nations* (1912), a pretentious three-volume publication, in which are collected indiscriminately all sorts of protectionist arguments. Under a portrait of Lincoln this is printed: —

"I do not know much about the tariff, but I know this much, when we buy manufactured goods abroad, we get the goods and the foreigner gets the money. When we buy the manufactured goods at home, we get both the goods and the money." [2]

No reference is given by Curtiss to Lincoln's writings; nor is such a reference given in any place where I have found the phrase quoted. A careful examination of the various editions of Lincoln's published works brings to light nothing that remotely resembles it. There is nothing in either of the two editions of his writings put together by Nicolay and Hay, nor is there anything in the so-called Federal Edition. Nico-

1 From the *Quarterly Journal of Economics*, August, 1914.

2 Vol. iii, p. 6. Elsewhere in the book the version is in somewhat different form: "Abraham Lincoln said: 'When an American paid $20 for steel rails to an English manufacturer, America had the steel and England had the $20. But when he paid $20 for the steel to an American manufacturer, America had both the steel and the $20.'" *Ibid.*, vol. ii, p. 471.— This obviously is an anachronism, since such a thing as a steel rail was unknown in Lincoln's time.

lay and Hay's *Life* yields nothing of the sort, nor any of the biographies. So with Lincoln's Speeches in Congress and his Messages to Congress. There is no lack, to be sure, of references to the tariff by Lincoln. He began his political career as a Whig, and remained a protectionist; though during the decade preceding the war his political insight led him to put it aside as an issue on which to appeal to the people. Those who are interested in the history of the tariff controversy may find it worth while to turn to some notes of his written in 1846–47, containing a sketch of an address on the tariff. Here the main thought is that labor given to transporting a commodity from foreign countries is wasted, if the commodity can be produced within the country with as little labor as elsewhere.[3] This may be an echo of some of Carey's well-known utterances; and it could be made the text for some explanation of the principle of comparative cost. A passage of a similar sort is in an address made at Pittsburgh in 1861, indicating that Lincoln had kept this particular turn of reasoning in mind. But there is not the slightest suggestion of the much-quoted phrase.

Now, what is the history of the phrase?

The very first mention which we have found [4] is in 1894, in the *American Economist*, a weekly protectionist sheet published in New York. In that periodical for June 29, 1894, the following is given as having been copied from the *Independent* of Howard, Illinois, of June 9, 1894: —

> "Lincoln's first speech on the tariff question was short and to the point. He said he did not pretend to be learned in political economy, but he thought that he knew enough to know that 'when an American paid twenty dollars for steel to an English manufacturer, America had the steel and England had the twenty dollars.

[3] Lincoln's Complete Works (2 vol. edition), vol. i, p. 90. Cf. p. 679 for the Pittsburgh address.

[4] I say "we," because in the endeavor to trace the phrase to its origin I have had invaluable assistance from Dr. D. M. Matteson, well-known for his thoroughness in research on problems of American history.

But when he paid twenty dollars for the steel to an American manufacturer, America had both the steel and the twenty dollars.'"

In a later issue (Oct. 26) of the *American Economist* of that same year, it is stated that another newspaper, the Peoria *Journal,* protested that the "goods and money" speech was made at Kewanee; while still another newspaper, the Chicago *Record,* pointed out that this version was not at all in accord with Herndon's report of Lincoln's first speech.[5]

That the phrase was not current before 1894, at least in its attribution to Lincoln, and probably was not known at all, is indicated by its absence from those collections of opinions of "the fathers" which form a familiar part of the protectionist stock in trade. It is not to be found in Stebbins' *American Protectionist's Manual* (1883); though Lincoln is there mentioned as being "in favor of a high protective tariff." Nor is it in a tract published in 1892 by the American Iron & Steel Association, under the title *The Testimony of the Fathers.* The tract contains a choice collection of excerpts from the utterances of Hamilton, Jefferson, Calhoun, Webster, Clay, even Fillmore and Buchanan; but not a word from Lincoln. Nor is it used with any frequency for some years after its first appearance in 1894. But after 1900 it turns up repeatedly in the file of the *American Economist:* in 1901, in 1905, twice in 1906, again in 1908.[6] After the

[5] Dr. Matteson reports that Howard, Ill., appeared on the maps until about 1902; since then a village at the same spot — a mere junction-point, apparently — is named "Lotus" on the map. It is in the northwest corner of Champaign County, forty miles from Lincoln's early home at New Salem. Dr. Matteson adds: "I am forced to the conclusion that the *Howard Independent* is a myth, or at least a misprint. The post-master at Lotus writes me that no paper has ever been printed there; and there is no other town in Illinois, so far as I have been able to discover, with which the name Howard is associated. No *Howard Independent* was published elsewhere in the United States, according to the newspaper directories of 1891, 1894–95, and the last issue."

[6] May 10, 1901; June 9, 1905; Feb. 16 and Dec. 21, 1906; Dec. 18, 1908; Dec. 23, 1910. The set of the *American Economist* in the Har-

very first appearance, the commodity mentioned seems to be invariably rails — sometimes iron rails, sometimes steel rails. Usually, a newspaper is quoted as having used the phrase or reported its use. Thus, in 1905, the following is quoted from the Worcester *Telegram:* —

"Senator Scott of West Virginia is scored in some places for quoting President Lincoln in support of the policy of standing pat on the Tariff issue, and some of the critics appear to doubt that Lincoln ever used the words attributed to him. The words at least are good enough to have been used by the war President. Senator Scott says: 'President Lincoln once remarked that if we gave $30 a ton for iron rails made in this country we would have both the rails and the money, but if we bought them in England the rails only would be ours, while the Britishers would get the cash.' . . . Neither does it matter . . . whether the rails . . . are iron of the days of Lincoln or the steel of to-day."

In 1908, again, the then Secretary of the Treasury, Leslie M. Shaw, is quoted in the *Economist* as having used the quotation in a Boston speech.

The first appearance for express campaign use appears to be in 1904. The phrase is to be found in the Republican Campaign Book of that year. In earlier campaign books, for 1892, 1896, 1900, it does not appear; although in that of 1896 Lincoln is cited as an advocate of protection. Evidently the phrase was not widely known during these earlier years. In the Campaign Book of 1904, there is an extended quotation from Lincoln's tariff notes of 1846–47 (referred to a moment ago) and then at the close we find: —

"On another occasion Mr. Lincoln *is quoted*[7] as saying: 'I am not posted on the tariff, but I know that if I give my wife twenty dollars to buy a cloak and she buys one made in free-trade England,

vard Library is not complete; there may be other references in the missing numbers.

[7] Italics are mine. The guarded way in which the passage is used would seem to indicate suspicion. It does not appear in the Republican Campaign Handbooks of 1908 and of 1912.

we have the cloak, but England has the twenty dollars; while if she buys a cloak made in the protected United States, we have the cloak and the twenty dollars.' "

Here, it will be observed, " a cloak " appears. In a speech by McCleary of Minnesota, in the House of Representatives, April 22, 1904,[8] " a dress " and " my wife " appear, with the same sum of $20. It may be that the campaign book version of 1904 was taken from McCleary's speech.

In 1910 the phrase appears conspicuously in a booklet entitled *Story of a Tariff*, published by the American Protective Tariff League — the organization which publishes the *American Economist* also. This booklet lauds the tariff of 1909 as " the best tariff bill (*sic*) the Republican party ever passed," and gives a quantity of extracts from speeches on that measure. On the inside cover page there is printed in large type " Lincoln's Tariff Creed," in these words: —

" Secretary Stanton once asked Abraham Lincoln what he thought of a Protective Tariff. Mr. Lincoln replied: 'I don't know much about the Tariff, but I do know that if my wife buys her cloak in America, we get the money and the cloak, and that American labor is paid for producing it; if she buys her cloak abroad, we get only the cloak, the other country gets the money, and foreign labor receives the benefit.' "

It will be observed that this is somewhat enriched. American labor and foreign labor are smuggled in; and not only is the wife introduced, but Secretary Stanton also.[9]

[8] *Congressional Record*, 58 Cong., 2 Session, appendix, p. 246.

[9] In response to an inquiry, Mr. W. F. Wakeman, Secretary of the American Protective Tariff League, wrote me on June 28, 1914: " About five years ago I took up this subject of what Lincoln really did say on the Tariff Question and found that the extract as printed is correct. I consulted the family and every possible authority. I will try to run over the original correspondence shortly and give you additional information if desired." But the information, though asked for, has not been supplied. Mr. Wakeman was Secretary of the League in 1894, and has been so ever since, except in 1900–1901, when he was Appraiser in New York.

Not the least interesting episode in the history of the phrase is its voyage across the water and subsequent return to the United States. In 1908, the *American Economist* reports that a London correspondent has written: —

"An interesting development has been the appeal to Abraham Lincoln . . . as the final authority in an English fiscal controversy. . . . A number of Unionist papers closed the controversy simultaneously by quoting the following extract from a speech made by Lincoln shortly before his death: 'The problem seems to me a simple one. If we adopt Free Trade it means that we import our goods, in which case the foreigner will have our money and the work, and we his goods. If, however, we adopt a system of Protection, or a system of safeguarding our industries and our working classes, thereby manufacturing the goods ourselves, the result will be that we shall have the goods, the money, and the employment.'"

It will be observed that here Lincoln is supposed to have made the remark shortly before his death; whereas on its emergence it was supposed to have been made in his first speech.

Very recently, the English "tariff reformers" have utilized it again. They distributed (apparently in the course of 1913) a post card bearing within an ornamental scroll the following printed text: —

"I do not know much about the tariff, but I do know this much: when we buy goods abroad, we get the goods, and the foreigner gets the money: when we buy goods made at home, we get both the goods and the money."— Abraham Lincoln.

This naturally led to attack by free traders, in the columns of the Manchester *Guardian.* The *Guardian* in turn made its way to this country, and thereupon our loyal protectionists were led to retort that this shallow newspaper "in an unguarded moment recently allowed its finespun theory of free trade to come into direct conflict with the protectionist common sense of Abraham Lincoln." [10]

[10] See the *Textile Record* (Boston), July, 1913. I have been able to

Finally, the phrase has descended to base uses indeed. In recent issues of New York newspapers, a brand of shoes is advertised as "made from American materials, with home labor and by home capital," and then follows the precise passage quoted a moment ago from the *Story of a Tariff* of 1910, with the interpolations about American labor and foreign labor, and the reference to Secretary Stanton. The advertisement, however, seems not to have been found advantageous. The advertiser was overwhelmed by a host of inquiries, and made a public reply in which he withdrew behind the shelter of the Protective League and its publications; and he refrained from continuing the advertisement.[11]

It seems certain that the phrase is apocryphal. There is no evidence that Lincoln ever used it. Further search may show just how it originated. Possibly the claptrap about the "goods and the money" was invented before it was foisted on Lincoln; possibly it was ascribed to him at an earlier date than the first here noted (1894). By dint of repetition it has come to be associated with Lincoln almost as much as the cherry tree is associated with Washington. So crude is the reasoning (if such it can be called), so vulgarly fallacious is the antithesis, that we must hope that it will cease to be invested with the sanction of a venerated name.[12]

secure little information about the British episode. The Literary Secretary of the Tariff Reform League writes me: "We have no post-card containing the quotation from Lincoln, nor to the best of my knowledge have we ever issued such a post-card. . . . The quotation is of course well known to us, and it is quite possible we may have referred to it in our 'Monthly Notes,' though not in any recent years." Another correspondent in England suggests that a branch of the League may have circulated the card.

[11] The advertisement appeared in New York in the *Journal of Commerce* and the *Times*, May, 1914; perhaps in other newspapers also. The advertiser's answer to inquiries was in the *Times* of May 18.

[12] Since this note was prepared, my attention has been called to a letter of Mr. Horace White's in the *New York Evening Post* of April 10, 1914. Mr. White points out that nothing like the oft-cited passage is to be found in Lincoln's writings, and pungently concludes: "My

A SEQUEL [13]

The note which I published in the August issue of this Journal on the tariff phrase attributed to Lincoln (getting "both the goods and the money") has stirred discussion, as is natural with anything that concerns the great president. Some further light upon the origin of the phrase has come in consequence. For most of the information which I am now able to give, I am indebted to Mr. Calvin W. Lewis of Brookline, Massachusetts, who first called attention to some of the clues in contributions to the *Boston Transcript* signed with a pseudonym, and who has since put at my disposal in the most obliging way the results of his inquiries.

It will be remembered that the earliest appearance of the phrase, so far as Dr. Matteson and myself were able to trace it, was in the *American Economist* for June 29, 1894, where it was stated to have been copied from the *Howard Independent* of June 9, 1894. The *Howard Independent* proved a puzzle. Dr. Matteson was able to find no trace of any such newspaper, and concluded that it was "a myth, or at least a misprint." The puzzle was not lessened by the failure of the *American Economist* to give any explanation. Our note was brought to the attention of the *Economist*, and some reference has been made in its columns to Lincoln's utterances upon the tariff and to this particular myth; but no attempt was made to verify, or specify further, the source from which the phrase had come. A suspicion could not but arise that the phrase might have been manufactured by the *Economist*, and that the *Howard Independent* was a pretense.

That suspicion proves to be quite without foundation. The *Howard Independent* is not a myth; but, as Dr. Matteson thought possible, it is — a misprint. It appears that

reason for thinking that Lincoln never said this is that he was not a fool."

[13] From the *Quarterly Journal of Economics*, February, 1915.

there is in Illinois a flourishing town by the name of Harvard, and that a weekly newspaper, the *Harvard Independent,* has been published there for many years. "*Howard Independent*" was merely a misprint for "*Harvard Independent.*" Moreover, Mr. Lewis, through correspondence with the present editor of the *Harvard Independent,* has learned from him that a search in his files brought to light, in the issue of the date stated, June 9, 1894, the identical phrase. It is there, and the *American Economist* copied it in good faith and with due credit. It is not surprising that the editor of the *American Economist,* after the lapse of twenty years, should have quite forgotten just how he happened on the phrase, and should now find it as difficult to trace as the rest of us. Any suspicion of fabrication on his part was quite without foundation.

But all this only serves to push the inquiry one step further back. Where did the *Harvard Independent* get the phrase?

In the works of Robert G. Ingersoll there is an oration upon Lincoln, which bears the date 1894. In it there is a passage [14] which says that Lincoln was "nominated for the legislature and made a speech," and that this speech was in favor of a protective tariff. Ingersoll refers to it shortly after as Lincoln's first speech. After some remarks about the influence of manufactures in "developing the brain" and "giving wings to the imagination," Ingersoll goes on thus:

"It is better for Americans to purchase from Americans, even if the things purchased cost more.

"If we purchase a ton of steel rails from England for twenty dollars, then we have the rails and England the money. But if we buy a ton of steel rails from an American for twenty-five dollars, then America has the rails and the money both."

[14] See vol. III, pp. 127–128 of the "Dresden Edition" of the Works of Robert G. Ingersoll (New York, 1900). The oration, or lecture, is also reprinted as an introduction to the seventh volume of "Lincoln's Collected Writings," edited by Nicolay and Hay (New York, 1905).

It will be observed that this differs in one significant particular from the phrase attributed to Lincoln. The purchase from the American is supposed to be at a higher price than that from the Englishman — twenty-five dollars instead of twenty dollars; the allegation is that it is more advantageous to buy at home, even at the higher price.

There are still other grounds for questioning whether this passage, as it appears in print, was the source of our myth. It is not put by Ingersoll in quotation marks, nor is there any intimation or implication that it is taken from Lincoln. Ingersoll mentions steel rails; if he had wished to imply that the language was Lincoln's, he would hardly have selected an article not known in Lincoln's day. A careless reader might possibly infer this to be a paraphrase or quotation from Lincoln; but only a careless one. More important is the circumstance that internal evidence points to its having been published at a later date than that of the passage in the *Harvard Independent* (June, 1894). Immediately following the two paragraphs just quoted Ingersoll goes on: "Judging from the present universal depression and the recent elections, Lincoln, in his first speech, stood on solid rock and was absolutely right." "Recent elections" must refer to the elections of the autumn of 1894. The elections of 1892 were not favorable for the Republicans, but those of 1894 were. It is the latter only to which Ingersoll could have alluded. The date of the oration in its printed form is clearly later than that of the appearance of the phrase in the *Harvard Independent.*

Nevertheless, I am disposed to believe that Ingersoll's oration is the *fons et origo* of the myth; not as it is printed in his works, but as delivered before. Ingersoll was much in demand as a lecturer and political speaker. For years he orated on the lyceum platform and spoke at political rallies. The oration on Lincoln doubtless was delivered many and many a time before it was put into cold print. The tariff

phrase doubtless figured in it, and was likely to stick in the memory of hearers; and in this way the *Harvard Independent* probably got hold of it. Hearing it as delivered, with the dramatic emphasis of which Ingersoll was a master, the reporter would not fail to remember it, and at the same time would naturally suppose it to be a quotation from Lincoln, not an epigram of the orator's. The circumstance that the difference in price between English and American rails, which is an important part of Ingersoll's version, does not appear in the *Harvard Independent* or in other places, is entirely consistent with its having had its origin in a vaguely memorized report of spoken words.

In sum, the indications now seem to be that Ingersoll's oration, notwithstanding its having appeared in print at a later date than the first published version of the phrase, is nevertheless the source. It is precisely such as Ingersoll might have invented — epigrammatic and fetching. No evidence has been adduced, or is likely to be, that it originated with Lincoln or was ever used by him.

EPILOG

The question has been put to me from one quarter and another: why dismiss the argument in such cavalier fashion? Be it Lincoln's or another's, it has an appearance of reasonableness, to some persons even of conclusiveness. That there is a strong appeal in this way of putting the case for protection cannot be denied. Is it quite beneath contempt? Is he who so puts the case necessarily a fool?

Not stupidity has to be dealt with; simply blank ignorance. One must restate truths which ought to be familiar, as well established and in their essence simple.

Briefly, the grounds for curt dismissal are as follows. First, the main error is to suppose that we pay for imports by sending out money; that importation means loss of money;

and that a lessening of imports means a gain or accumulation of money. And in the converse case, when we export or increase our exports, it is an error to assume that we profit by gaining money or accumulating money. The most obvious fact in international trade is that imports are *not* paid for by sending out money, and that we do *not* get more money by lessening our imports; neither is money procured by the sale of exports. It is the exported goods that pay for those imported. A decrease of imports means a decrease of exports, not a corresponding inflow of money, and an increase of exports means an increase of imports, not an inflow of money. True, each individual transaction is in terms of money. But the transactions are offset, and the great bulk of the payments are effected without the remittance of cash. The details of the course of trade between nations, the use of bills of exchange and the rates of foreign exchange, the process by which merchandise transactions are offset — all this would make a long story, which must be left to the various books, elementary or elaborate, on the mechanism of international trade. The topic is not without its intricacies and difficulties, but is better understood than almost any other in the field of economics. If there is one thing established in that field, it is that a country's goods sent out of its borders serve to pay for the goods imported; they do not bring in corresponding amounts of money or enable money to be piled up.

It is true, and is also a commonplace, that a change in imports or exports often stimulates an initial and temporary movement of money (gold). Under the ordinary conditions of peaceful trade, there is a constant flow and reflow of gold between countries, serving to give a start to the movement of goods and also to equalize balances of payment. But the movement of money is always small in comparison with the total transactions. It is usually of minor importance, too, in its effect on general business conditions; and when, as

sometimes happens, of serious importance, it is so rather as an effect than as a cause, as a symptom rather than as an ill or benefit in itself. To maintain or imply that gold flows for each item of imports or exports, or that a cutting down of imports results in an unending enrichment of a country through an inflow of money, simply indicates gross ignorance.

Next, the inquirer must rid his thoughts of the very idea of a country's enrichment by the process of buying less from foreigners or selling more to them. This is the most insidious part of the error; most insidious because it applies notions familiar in private affairs to the quite different problems of public welfare and national prosperity. Buy less and sell more — is not this the way an individual gets rich? But it is *not* the way in which a nation gets rich, least of all in its trade with other nations. Produce more and consume less — so much one might lay down. Thereby a nation does indeed accumulate capital and in a sense grow rich; that is, it does accumulate the capital indispensable for continuing prosperity. But accumulate money by buying less from foreign countries and selling more to them? Even if a country could really achieve the result, and could have the money pouring in year after year, it would not become richer in the only sense in which riches conduce to the general welfare. General welfare means that we have more of the necessities and conveniences of life — more food, clothing, houses, amusements. Money is only a symbol, a medium of exchange, a means of buying the things wanted. All the piling up of money in the world would not make the world better off; and the perpetual piling up of money in a single country would not make that country more prosperous.

Unfortunately, our daily use of money and our daily preoccupations with private business affairs render it most natural for the ordinary man to think of riches as money, and of sales as the source of profit; and then to think of the com-

munity's affairs in the same terms as of his own affairs. The persistence of what the economist calls the mercantilist view is the most trying experience of his profession. It is in flat contradiction with truths established of old and accepted by every competent judge. Yet the familiar fallacy crops out everywhere and on all sorts of occasions, and seems to be quite ineradicable. Its deeprooted hold explains the vogue of the phrase ascribed to Lincoln; explains why the economist breathes a sigh of relief on finding that the great name cannot be associated with it; explains, too, why he displays a touch of impatience when asked once more to supply a refutation.

III

HOW THE TARIFF AFFECTS WAGES[1]

I

THE form in which the argument that the tariff raises wages is commonly presented is that of a simple comparison of money wages in the United States with money wages in foreign countries. To most people this is a plain and convincing way of putting it. If A pays only fifty cents a day to his workmen, and B pays a dollar a day, it seems clear that A can undersell B, and that B cannot compete with A unless he reduces his wages to A's rates. The application of this reasoning to our protective duties is familiar enough: if duties are lowered, American employers must either pay lower wages or abandon the field.

This belief is not merely widespread: it is something like an article of faith with millions of Americans, probably with a majority of our people. It is congenial to the average man's way of thinking about economic matters, and is as firmly held by most of the business men and well-to-do as by the manual workmen. It has been incessantly dinned into the ears of both by protectionists for half a century. That it is a potent device for bolstering up protective tariffs is shown by the fact that it is utilized, not only in our own country, but in others also — in those with low wages as well as those with high. In Germany, France, and Italy, the appeal for the safeguarding of the laboring man's wages against foreign competition is as universal and probably as

[1] *Atlantic Monthly*, September, 1919.

fetching as in the United States. And the appeal is sincere. No doubt, manufacturers and others engaged in protected industries push it for all it is worth, but not usually with conscious demagogy. Certainly in our own country those who make the appeal and those moved by it believe in their hearts that our standard of living and the very basis of our prosperity rest on the maintenance of a system of high duties. Only this will prevent the pauper-paid laborer of Europe and Asia from sending us cheap products which will compel the lowering of wages to a pauper standard.

And yet the verdict of economists is unanimously the other way. Perhaps unanimous is too strong a term; but virtual agreement there is. I know of no economist, certainly none in England or this country, who would sanction the pauper-labor argument. The extraordinary perversion of thought on all international matters which has resulted from the inflamed rivalries of Continental countries during the last half century has affected their economic thought on all matters relating to trade; and persons of academic repute can be found who give sanction to the talk of the vulgar. A lack of clear thinking and of honest statement has been among the many lamentable consequences of the mad struggle for power. Even so, no economist of standing would maintain that a protective tariff is the one decisive factor in making a country's rate of wages high.

There are familiar facts in plenty which run counter to the argument. They are familiar, but, as is so often the case, people fail to see the significance of that which stares them in the face. A plain fact, universally known, is that we regularly export from the United States goods to the value of billions of dollars. How can this be if low-paid labor can always undersell high-paid labor? Wages in terms of money, and in terms of commodities also, are higher in the United States in all occupations, of whatever kind. Yet we know that not all employers of every kind are undersold

by their foreign competitors. The simple existence of an export trade proves that they are not; nay, that so far as there is any underselling, it is the Americans who undersell the foreigners.

We export an extraordinary quantity and variety of articles: agricultural products like cotton and wheat, crude and semi-manufactured products like mineral ores, timber, and copper, and all sorts of manufactured goods — cotton fabrics, iron and steel in all stages, machinery and tools. All the laborers who are employed in making these exported articles get higher wages than those employed in making similar things abroad. Yet the very fact of exportation proves that the articles are sold at least as cheaply as the competing foreign articles. Wages in agriculture are higher here than in England or Russia. Thirty years ago, the English agricultural laborer got ten to fifteen shillings a week, or somewhere between ten and fifteen dollars a month, and out of this had to pay his own board and lodging. In the United States a farm-hand then got eighteen to twenty dollars a month, and got his board and lodging in addition. In recent times, wages in both countries have risen greatly; yet the difference in favor of the American has persisted. The Canadian farmer has been paying no less than the American. Notwithstanding this sustained higher rate of pay in the United States and Canada, agricultural products have continued to be regularly exported. American and Canadian farms, while paying higher wages than the British, are sending their wheat to England, even under the handicap of high freight charges by land and water. They are meeting the British farmers in the British market; and meeting not only the British, but the Russians, whose wages are even lower.

So in semi-manufactured and manufactured articles. Copper-miners in the United States, and the men engaged in the smelting and refining plants, get higher wages than

men doing the same work anywhere the world over; yet American copper is sold the world over. The laborers and mechanics in the agricultural machinery and sewing-machine industries get high pay; yet these are great articles of export. One of the striking changes in our international trade during the first decade of this century has been the enormous increase in the exports of the semi-manufactured forms of iron and steel. The total exports of structural steel, rods, rails, and wire rose to hundreds and hundreds of millions in the years 1912 to 1914 — years preceding the war, which were not affected by abnormal war conditions.

Still another set of facts may be adduced, not so familiar as those relating to our enormous export trade, yet familiar enough, and equally inconsistent with the belief that a country where wages are high must be undersold under free trade by one where wages are low. Great Britain has maintained complete free trade since the middle of the nineteenth century. The situation has endured without change for over half a century — ample time for testing the matter. No import duties have been imposed, except a few of strictly revenue character on articles such as tea and coffee. Commodities of every other kind have been admitted to Great Britain from foreign countries free, competing on equal terms with those of British production. India, Japan, China, Turkey, Italy, France, Germany — some of them with wages vastly lower than the British, all with wages considerably lower — could send their goods to England without let or hindrance. India, with hundreds of millions of the cheapest labor, and in closest commercial contact with Great Britain; Japan, fast outgrowing her old industrial system and keen to enter modern trade; France and Germany, just across the Channel and eager for exports — everywhere wages were lower, and in the Orient lower to an extent that would well-nigh paralyze with fright an American protectionist contemplating free trade with such regions. And yet

England grew and prospered. British India, apparently the most dangerous competitor because so directly linked with the imperial country, so far from threatening English industry, actually asked for protection against the competition of the English cotton manufacturers who paid wages much higher. So did the French and Germans; their protective measures were directed against the country of higher wages. And English wages, high at the beginning of the period, not only remained high, but advanced markedly between the middle and the close of the nineteenth century.

The explanation of all such facts is simple. Turn to the most familiar fact of all — the continuing exports from the country of high wages to those of low wages. The workman whose labor is embodied in the exports is paid more; but he also produces more. The labor is more effective, and the employer can therefore afford to pay more for it. Sometimes, as in the case of wheat and iron and copper, the same exertion produces a greater quantity of identically the same article. Sometimes, as with our exported cottons, it produces a greater quantity and also a better quality. Sometimes again, as in the case of our sewing-machines and agricultural implements, the greater effectiveness consists in producing an article which is better made and better adapted to its purposes. The greater (or better) product yields a larger gross return to the employer, even though not a larger sum per unit, than the return from similar labor elsewhere; and the employer is able to pay higher money wages. Not only is he able to do so, but he must: for thousands of employers compete with each other for laborers; and the result must be that wages will be high in some proportion to the productiveness of the laborers.

Beyond doubt this is the fundamental explanation of the differences that prevail in the various parts of the world. The plain reason why wages are very low in India and China, higher but still meager in countries like Italy and

Austria, comparatively high in England and Germany, and highest of all in the United States, is to be found in the varying productiveness of labor in these countries.

The relation between Great Britain and Germany under British free trade illustrates in another way the same simple principle. The illustration is not so obvious, yet rests again on broad facts of general knowledge; it involves no labored investigation. In Germany in the middle of the nineteenth century, when Great Britain entered on her free-trade career, wages were considerably lower than in that country. Yet, it was not Great Britain's industries that feared Germany's competition, but just the contrary: it was Germany that adopted protection (not extreme in those days) designed chiefly to keep out British manufactured goods. As time went on, the trend of wages came to be upward in Germany as well as in Great Britain; and the rate of advance in Germany, though not the actual level, was even higher. True, wages in Germany did not attain the British range, either in money or in commodities, at any time up to the Great War. But starting as they did from a level much lower, they showed a more marked advance.

Now, it might have been supposed that, as wages rose in Germany, this country would have become a less dangerous competitor in the "markets of the world," which play so large a part in the ordinary discussion of international competition. Not so: German exports grew and German competition came to be feared during the very period in which German wages were steadily rising. And the explanation is again simple. One and the same fact underlies the advance in wages and the growth of exports — increasing effectiveness of German labor, especially in the exporting industries. The causes of that increasing effectiveness were various: partly that Germany, starting from a low level, acquired with rapidity the methods and machinery of modern industry; partly the exercise of care, persistence,

and skill in some branches of applied science; and partly a burst of leadership which was associated with political and military ambition. It matters not for the present purpose what the causes were. The main thing is that advancing wages proved no obstacle to exports and no stimulus to imports.

II

The general proposition that a high rate of wages is the result of a high productiveness of industry is simple and undeniable. In a sense it is superficial; it may be said to be a truism, though it is one of those truisms which are constantly forgotten. Beyond doubt there remain questions much more difficult. Just how and through what channel or mechanism does high general productivity lead to the high wages? And what determines the share of the total product, be that great or small, which shall go to the laborer, the employer, the owner of capital, the owner of land? But these questions, the most important and perhaps the most complex in the field of economics, lie quite outside the tariff controversy. Wide-ranging as that controversy is, this limitation of its scope seems to be generally recognized. In popular discussions of the tariff, the relations of labor and capital and the distribution of wealth and income are not usually touched, and we need not here concern ourselves with them. It suffices for the purpose in hand to get a broad explanation of the differences in wages in different countries, such as we find in the varying productiveness of labor. The explanation is so simple, and the notion that a high tariff causes general high wages is so flatly contradicted by plain facts, as well as by simple reasoning, that any elaborated discussion of it would call for an apology if the tariff-and-wages argument were constantly repeated.

In truth, few intelligent and unbiased persons would seriously argue that protective duties are the chief cause of

high wages in the United States. But many would doubtless say that the duties *keep up* the wages in certain industries, and therefore at least help to maintain them, not in those only, but in all others. On the other hand, the opponents of protective duties generally argue that duties keep wages high in no industry whatever, and that, when they affect wages at all, they always tend to lower them. An examination of these conflicting views will enable us better to understand what is the real situation.

Begin with the line of argument which maintains that high wages are never the result of duties, but always and invariably of greater effectiveness of labor,— a not infrequent answer by the free traders to the protectionist contention.

To this it must be replied that high wages in the United States, at present, are not in all cases the result of greater productiveness. If not caused by the tariff system alone, they are at the least dependent on it. They are the result of the tariff system in this sense: as they are and where they are, they could not be paid but for that system. Many workmen — not so many as is often supposed, but still many — could not be paid in their present occupations what they now earn but for the barrier against foreign competition. It does not follow that, if duties were removed, they could not get wages as high or higher in some other occupation; but, where they are, their present wages could not be paid but for the duties.

When a system of protection has been established, it is not true, as we are often told by writers opposed to protection, that high wages are an invariable sign of productiveness, of great effectiveness of labor. In the United States we do have a great and dominant range of industries in which labor is effective, cost is low, commodities are produced with less exertion than in other countries, and in which wages therefore are high. But side by side with these, the protective tariff has established industries in which labor is

no more productive than in other countries. Chinaware of the finer grades supplies an example. If there were no duty on such ware, very little would be made in the United States, perhaps none. The employer who should try to make it could not afford to pay wages at the high rates set by other more effective industries. It would be imported, and would be paid for by the exportation of commodities for which our conditions are more favorable. But so far as the individual employer and workman are concerned, the duties on chinaware serve to offset the lack of favorable conditions. The duties enable the ware to be sold for more here than it will bring abroad; it can sell in this country for the foreign price *plus* the duty. The employer is put in the same position as if his labor were more effective than the foreign labor. The tariff enables him to get more money for his product than the foreign employer gets for the product of the same labor abroad; therefore he can pay higher wages than are paid abroad. And he *must* pay them. The standard is set by farmer and steel-maker and implement manufacturer, who get a larger gross return per unit of labor than their foreign competitors, and will under any conditions pay higher wages. The manufacturer who is dependent on protection must pay as much; and he is enabled to pay as much, even though his men produce no more in quantity or quality than those of his foreign competitors, because the duties make it possible for him to sell identically the same product at a higher price than prevails abroad.

But the staunch protectionist will ask: Given the situation as it now stands and must be dealt with now, is there any other possible way in which the wages of these men can be kept high? And not only of these men, but of all workmen in all fields of industry? Suppose the duties removed, the chinaware industry wiped out, a quantity of other industries to meet the same fate, workmen to rush into those more productive or effective industries which free traders

extol — what then? Will not the competition of the added numbers bring down wages all around, and will it not appear that wages everywhere will be lowered under free trade? Can they be *kept* at their present high rates without the aid of protection?

To these questions the free trader has his answer ready. Yet there are problems and possibilities which compel the unbiased inquirer to pause, and to reflect carefully before giving an unqualified opinion or offering unqualified advice.

It can be reasoned, as the free trader will reason, that, if the protective tariff be abolished, the men freed from the protected industries will ultimately find their way into the others not dependent on protection, and will there be employed at the same high wages that now obtain — nay, at wages probably higher. These industries will expand; and the market for their expanding output will be found abroad. An extension of international division of labor will take place. Things formerly made at home will be imported, while other things, which the foreigners formerly made for themselves, will be supplied to them from our exports. The result will be in the end that we and the foreigners alike gain. Each set of people will produce the things which it can produce to best advantage, and each will be better off by utilizing the best services of the other. All this is but a restatement of the proposition that international trade depends on differences in the productiveness of industry, and largely on differences that are comparative rather than absolute. The material prosperity of the United States is increased if we confine our labor and capital to the commodities in which we have an advantage and in which our employers can afford to pay high wages. The most effective way to get those things in which our productiveness is no greater than that of foreign countries is to import them, and to export in exchange those things in which our productiveness *is* greater.

The reasoning is beyond attack, granting its assumptions.

But it assumes, in a country which has long maintained a protective system and in which there are many industries dependent on that system, a great shift and an expensive transformation. No doubt the shift in the United States, even with the sudden adoption of complete free trade, would not be as vast as the protectionists commonly state or imply. Their version of the consequences is that every single manufacturing plant would have to be given up — not to mention the even more dire prophecy that all industries of every kind whatever would crumble in universal ruin. Just how many industries would succumb, no one can say; but I am convinced that they would form a minority among the manufacturing industries themselves. Our manufacturing industries are not in general such bottle-fed weaklings as their ardent supporters allege. None the less, the change would be absolutely large. There would be shut-downs, attempts to meet the situation by lowering wages, strikes, slow transfer of laborers to other regions and other industries, business failures, empty mills and villages, a trying readjustment of prices and probably of the general scale of money wages, hard times and uncertain employment. A considerable period of transition would have to be gone through before the new and better alignment of industry was finally reached. Those whose present commitments and investments have been made in business ventures dependent on protection could not be expected to do otherwise than oppose the change with might and main; oppose it too with the firm conviction that right and justice, as well as the need of maintaining general prosperity, were on their side.

Further: that expansion of exports which the free trader expects, and which he rightly regards as the complement of expanding imports, will not take place by an easy or rapid process. The ills which the protectionist predicts will appear at once and conspicuously; whereas the predicted gains on the other side will appear so slowly as to be recognized

only after a considerable interval. True, imports are paid for by exports, and cannot long continue unless so paid for. But there is no automatic connection. Each transaction in import trade and in export trade stands by itself, as Ricardo long ago remarked. Exports will grow only when they become profitable in consequence of the relation between prices of particular articles in this country and in foreign countries, and this relation will not be immediately changed. The economist may discern in the troublous period of transition the trend toward a developed and presumably more beneficial state of international exchange. But the average man will see only hard times and business troubles. The case is but one of many — the introduction of new processes and improvements is of the same sort — in which the immediate effect of a general economic change is unsettlement and depression. The ultimate good result, when it comes, is accepted as a matter of course, with no attention to the causes which brought it about. It is in this way that we accept unfettered free trade throughout the length and breadth of the United States, rarely stopping to think what far-reaching consequences it has for our material prosperity.

So great are the difficulties of an abrupt shift from one industrial policy to another — the real ones, not the imaginary ones of universal collapse and perpetual ruin — that no country, it can be safely predicted, will ever adopt such a ruthless procedure. If a change takes place, it will be by slow and gradual steps; and the first steps will be for a short start in a new direction, not at the moment of much consequence. Meanwhile, the bulk of the established industries will be safeguarded. And within the range of the industries thus protected it will remain true that wages can be kept high only so long as the protection is maintained. And since most persons jump from a single thing which they see to sweeping generalizations, their conclusion will be that the tariff keeps all wages high.

There is still another case which leads to the same sort of unwarranted generalization. The drift of the preceding reasoning is that, where the productiveness of a country's industries at large causes its rate of wages to be high, that high rate will be transmitted to the protected industries which could not otherwise afford them; while yet in the long run no workmen anywhere are really benefited by protection. But there are conditions under which protection may bring substantial and permanent advantage to some workmen, not only in the sense of keeping their wages up to the general level, but in that of lifting them higher. These are conditions of labor monopoly. A tight union of highly skilled workmen can get wages above the average, if it can not only keep the union closed within the country, but obtain legislation for keeping out foreign workmen and the products made by foreign workmen. Apparently this was achieved, for example, for a considerable time by the glass-blowers; and in olden days, for a shorter period, by the iron-puddlers. In both cases the exceptional advantage was wiped out, as such advantages usually are, by new processes which dispensed with the urgent need for the special skill. But the advantage lasted during the period of limited labor-supply and favoring industrial demand; and the tradition lasted long after the golden era itself.

The trade-union spirit of selfish exclusion fits perfectly into the general scheme of protectionism; just as does the employers' spirit of combination and monopoly. It is rare that either kind of combination succeeds in maintaining high gains permanently — either high wages or high profits; at all events, experience proves that a tariff barrier will not avail, unless other and stronger forces are behind. And it is to be borne in mind that the chances of effective monopoly are better for the capitalists than for the workmen; because the general trend of modern industry to large-scale operations works that way, whereas the general trend toward equalized

opportunities among laborers works to prevent even the highest trade union from holding a privileged position indefinitely. Nevertheless, rare and insecure as are the conditions under which anything like monopoly wages can be secured by any set of workmen, the possibility and the occasional realization strengthen the tradition that a high tariff leads to high wages.

Most persons, and virtually all spokesmen of the organized workmen, see only one outstanding thing at a time, and generalize therefrom at once. To them it seems axiomatic that any conditions which increase the wages, even of the smallest group, keep up the wages of all. The well-to-do and educated are entitled to no absolution on this score; they are perpetually and naïvely urging fallacies or half-truths to justify this or that arrangement profitable to a knot of their own people.

But when all is said, every qualification made, every exception granted, the fundamental proposition remains intact. The general rate of wages in a country is not made high by protection, and is not kept high by protection. I will quote what I have said elsewhere:

In current discussions on the tariff and wages, it has often been alleged that in one industry or another the efficiency or skill of the workmen is no greater in the United States than in England or Germany; that the tools and machines are no better, the raw materials no cheaper. How then, it is asked, can the Americans get higher wages unless protected against the competition of the Europeans? But it may be asked in turn, suppose *all* the Americans were not a whit more skillful and productive than the Europeans — perhaps quite as skillful, but not more so; suppose the plane of effectiveness to be precisely the same throughout the realm of industry in the countries compared; how *could* wages be higher in the United States? The source of all the income of a community obviously is in the output of its industry. If its industry is no more effective, if its labor produces no more, than in another community, how can its material prosperity be greater and how can wages be higher? A high general rate of real wages could not

possibly be maintained unless there were in its industries at large a high general productiveness.[2]

III

The general and dominant productiveness of American industry — how comes it about and in what directions is it likely to be found? A full answer would carry far beyond the limits of the protective controversy proper — limits which unfortunately are often passed in popular debate on this subject, which strays into any and every phase of economic inquiry. On the causes of varying effectiveness in industry much might be said; but the essentials can be stated briefly.

Those who reflect at all on the fundamental causes of general productiveness would probably emphasize two: more fertile land and more efficient labor. Both tell; yet others tell also, and are frequently ignored.

True it is that American agriculture long was the mainstay of our prosperity; on the whole it is so still. True also that we are blessed with great stretches of fertile land in a temperate zone. But the natural resources alone do not explain our favored position among the nations. That position is due no less to the intelligence with which the American farmer has learned to adapt methods of cultivation in such ways as to get the best yield from the plenty of good land. And he has been powerfully aided by the inventors and business men who have supplied him with agricultural machinery unique in its excellence, and by the railroad promoters and builders who have provided a transportation system which, as regards long-distance hauls, is also unique in its excellence. The American farmer is able to raise and to bring to market

2 *Some Aspects of the Tariff Question.* In the chapter from which this passage is quoted, I have considered more in detail the causes of differences in industrial effectiveness between different countries; and in the volume at large have taken up the causes in specific American industries (sugar, iron and steel, textiles).

more wheat per unit of labor applied than his European competitor, not only because he has abundance of good land, but also because he works more intelligently, uses more and better machinery, takes better advantage of the plenty of land, and gets his wheat to market more cheaply.

And — to turn to an analogous case — the copper-miner of the United States produces more copper per unit of labor applied than the miner of Europe or South America, not merely because the deposits of copper ore are richer, but also and mainly because the mining methods are better, the machinery more perfected, the transportation of ore and materials cheaper, the dressing and smelting and refining processes more advanced, all the advantages of large-scale operations better utilized. Invention, ingenuity, enterprise, management, are of a higher stamp than in competing countries. The human factor counts immensely in agriculture and mining, as well as in manufacturing industries. And it counts in the whole complex of operations: in the work of the farmer who plows and the miner who digs, as well as in that of the engineer, the inventor, the business man.

The reader may have observed that in preceding paragraphs I have spoken, not of the "efficiency" of labor, but of its "effectiveness." Efficiency, as the word is commonly used, implies greater output by the individual workman, alone and by virtue of his special excellence — greater physical vigor, better intelligence, better use of tools. Now in this regard the American of native stock does excel; the first native-born of foreign stock usually does; even the immigrant may, under the influence of example and environment. Most important, however, is what may be called, for want of a better term, the general *effectiveness* of industry — the accumulated result of all the factors that unite in making a people's work yield a given physical output. And among those factors a commanding place must be assigned to direction and management — to the business leaders. The busi-

ness men of America who "make" clocks and watches, boots and shoes, furniture and building hardware, steel in its semi-finished and more advanced shapes, tools and machines of all sorts — to specify some striking cases — turn out from their establishments, with the same capital and labor, more than the foreigners do; and this not solely, or even primarily, because their workmen are stronger or steadier or more skillful, but because of superior management.

When we try to define, not the physical causes of effectiveness, but those that rest on the character and genius of a people, precision is impossible. The characteristics that most pervade a people are often the most difficult to explain. Those of the Americans go with the spirit of democracy, the universal tradition of a free career for every talent, conceptions of large possibilities that correspond to the large scale of the country, the ubiquitous and restless energy in money-making — elements both good and bad. Business schemes, business ambition, business leadership, have played a larger part in our social and political development than in that of any other country. Only in Great Britain is to be seen anything comparable. And this has led to a general effectiveness of industry, not only wherever natural resources have been abundant, but often where there has been no such favoring foundation. The national genius has led to a high level of productive capacity over a wide range of mechanical industries. By far the greater part of what are classed as manufacturing industries have an inherent strength. They are able to pay the American rate of wages, not because they are bolstered up by the tariff, but because their output per unit of labor is large. They are among the strong and self-sufficing industries, not among the less effective which are upheld by those that dominate.

It is in the large-scale, standardized manufacturing industries that this strong position is most often found. Any one who looks through tariff demands and debates will be struck

by the fact that competing foreign products are likely to be specialties or handicraft articles. Where a thing is turned out in great quantities, all of a single pattern, the American producer is almost sure to hold his own. Sewing-machines, for example, are made in the United States by the thousand and hundred thousand, and are exported in great quantities to all parts of the world. Yet certain special types, of which a very few are in demand for unusual bits of stitching, are imported. Since only those few can be sold in any case, the American manufacturer does not find it worth while to set up the apparatus of molds, patterns, machines, systematized continuous output, which he organizes for the standard types. The European maker is willing to take orders for a few pieces, and makes the specialized machines by using a much larger proportion of handicraft-labor.

Again, table-knives are standardized, innumerable dozens being made of each pattern; pocket-knives, on the other hand, are of infinitely diverse patterns, no one marketable in great quantities. Hence table-knives are made in the United States unhindered by foreign competition; whereas pocket-knives have been steadily imported in face of high duties. Among textiles, the more ornate and expensive fabrics are commonly imported. Not many yards of any one such fabric can be sold; the American producer does not find its production worth while. But where there is mass production of an enormous yardage, he takes hold with success. His success is most conspicuous in the great range of ordinary cotton fabrics, easily marketed by millions of yards, and made as cheaply in this country as anywhere in the world.

It would give a false picture to sketch in these broad terms the general traits of American industry without calling attention also to the exceptions. Often the success of a given establishment, or even of an industry, is due to that elusive element, the personality of an individual. An Englishman may devise a system of highly standardized production for

a given article. An American may have a bent, perhaps an artistic gift, for a specialty. Sometimes the division of the market between domestic and foreign producers is quite inexplicable on any general grounds; it seems to be a matter of tradition or accident or mere inertia. Idiosyncrasies of this kind are as common as the departures from the standard type which the biologist finds in the living world. Probably not a single generalization in economics can be laid down to which there are not significant exceptions. And yet the general propositions remain the significant ones. For the present purpose these are: that our country's high rate of wages rests on a high general effectiveness of industry; that effectiveness is not merely a matter of natural resources or physical causation, but is largely the product of national spirit, temper, adaptiveness; and that it appears over a wide range of manufacturing industries, in which the key-notes are labor-saving devices, the utmost use of elaborated machinery, large-scale operations, mass production.

IV

Finally, a word must be said in criticism of an argument with which the free trader sometimes meets his opponent. He compares the wages paid in protected industries with those paid in industries not protected. In the former class conspicuous cases are adduced of wages below the general range and below the rates in non-protected industries; therefore, the free trader reasons, protection cannot be said to have any effect in keeping wages up. Nay, it is sometimes argued that protection is thus proved actually to bring them down. Some years ago, when there was a great strike in Lawrence, Massachusetts, figures were cited to show that the operatives in the woolen mills got wages unusually low. Here, said the opponents of protection, is an industry which notoriously has the advantage of high duties and yet pays

its employees wretched wages. How can it be maintained that protection benefits the workingman?

On this issue judgment must be given for the protectionist. The free trader perhaps is fairly justified in using this sort of fetching rejoinder as a tit-for-tat to the harping on tariff and wages which constitutes the campaign ammunition of the other side: he may be entitled to fight the devil with fire. But the impartial judge must rule that the facts are misinterpreted, the inferences not warranted. In any country, whatever the tariff system, and whether the general level of wages be high or low, some workmen will earn more than the average and some less. Differences in education and training, in skill, intelligence, and character, will always cause divergences from the general scale. The range is great from the common laborer to the highly skilled mechanic. Tariff legislation has as little to do with fostering or checking these divergences as currency legislation or railroad legislation. Far more significant in its bearing on these matters is the course of legislative policy on immigration, and even more important is the education of the masses.

It may indeed be alleged that the protected industries employ the lower grades of labor in unusually large proportions. Some of them do so — as for example the silk and woolen manufacturers. But other industries not dependent on protection do so also, such as iron- and steel-making, formerly a child of protection, but now quite grown out of tutelage, and the meat-packing trade, never under tutelage at all. American business leaders have shown singular adaptiveness in utilizing any and all resources at their disposal, both the natural and the human. They have directed the skilled mechanics to the construction and operation and repair of the most complex machinery; they have directed the drudges supplied by immigration to monotonous but effective mass-production. But there is no clear evidence that the employment of the one class or the other, or the relative rates of pay, have

been modified by the country's protective policy. Through it all, the wages of the lowest stratum have been higher in the United States than in foreign countries; and so have those of the upper strata. The difference in favor of the American workmen has not indeed been on the same scale throughout. The skilled mechanic has enjoyed, at least during the last generation, a larger differential than the pick-and-shovel man. But this special advantage has appeared quite as much in the industries not dependent on protection as in those that are dependent. It is due to general social causes quite different from those that bear on the tariff problems.

It is possible, nay probable, that in the next generation marked changes will take place in this part of the social structure. The supply of human cattle will be much abridged by the application of the illiteracy test to immigrants, conceivably by the future application of tests even more narrowly selective. Further, the tendency of democracy and of universal education is toward lessening the stratification of labor; and that tendency will be no longer counteracted, as it has been in recent decades, by a steady congestion in the lowest stratum through immigration. A most desirable and welcome smoothing of the differences will gradually result, opposed by the employers, opposed also and bitterly resented by the semi-aristocratic crafts, yet not to be resisted. It may not take the form of a lowering of the craft wages; possibly these will simply remain stationary, while those of the unskilled gradually rise; but some smoothing away of the differences may be expected.

The development of American manufacturing industries may be much influenced by this social change. The industries which had been planned and organized on the basis of being able to draw cheap common labor from a vast reservoir will find conditions less propitious than before. Both protected and non-protected industries will have to adjust themselves to altered conditions. But it would be hard to say

that the adjustment will be greater or more difficult in one set than in the other. Important though the new situation will be for our social and political problems, it is not likely to bring consequences significant for the protective controversy.

To return to the main question: it is reduced again to its simplest elements. Wages at large, and the prosperity of the laboring class as a whole and so of the country as a whole, are not kept high by protection. True, in those branches of industry which are really dependent on the tariff, the workmen there engaged could not there remain, at the current high wages, if the tariff barrier were to be removed. True, also, a transfer of labor and capital to other industries not dependent on the tariff could take place only with great difficulty and great hardship; and here are problems which the free trader cannot lightly dismiss. But none the less it is untrue that high wages in general have been caused by protection, or are now made possible only by protection. They rest not on that feeble prop, but on the solid foundation of general effectiveness of industry — on the resources of the country and the genius of the people.

IV

WAGES AND PRICES IN RELATION TO INTERNATIONAL TRADE [1]

The main thesis of the present paper is that in considering the working of international trade, attention should be paid more to the range of money incomes, and less to the range of prices than is usually the case when economists take up this set of topics; and that in gauging the advantages which a country secures from international trade, we should look primarily to the range and the variations of money incomes.

It is usually set forth that the country where prices are highest gains most from international trade, and the country where prices are lowest gains least. The range of prices obviously enough is not in itself of consequence. High prices simply mean the use of more counters in exchange. But in buying imported commodities those whose domestic transactions are carried on with many counters have an advantage. Foreign goods are not so high in price, and are procured more easily. Conversely, countries with low prices are ill off as regards imported goods, which are bought on hard terms by people whose scale of money prices is low.

This statement of the case would be open to no exception if the words "money incomes" were used throughout when stating the situation of the people of a given country. It is high money incomes that are of consequence in international trade, not high prices. In fact, a country may have, not high

[1] *Quarterly Journal of Economics*, August, 1906. This paper is addressed, more than any other in the present volume, to those conversant with the refinements of the theory of international trade. The general reader may prefer to pass it by.

prices, but low prices, and still be in an advantageous position as regards international trade. High money incomes do not necessarily or commonly mean high prices. It is by a consideration of the relation between money incomes and prices, of the possibilities of divergence or parallelism between them, that some contribution may perhaps be made toward better understanding the phenomena.

Let us consider, for this purpose, a country in which wages and other money incomes are high. The United States, for example, has a high range of money incomes. It is commonly thought to have also high prices. Let us compare its situation with that of the European countries with which it trades, and ascertain wherein it gains, and how far its gains are connected with the prices of goods and the money rates of wages and other incomes. For the sake of simplicity, in speaking of the United States or similar countries, I shall use indifferently the terms "money wages" and "money incomes," leaving it to be understood that not wages only, but other money incomes as well — rents, profits, interest, the earnings of independent farmers or artisans — tend to be correspondingly high.

Begin by recalling some of the familiar principles of international trade. Under a state of freedom, goods that are imported and exported will sell at approximately the same prices the world over. There will of course be differences from cost of transportation. Imported goods will sell at prices higher than their prices in the exporting countries by the amount of cost of carriage. Sometimes a commodity that newly enters into foreign trade — one that a shrewd merchant discovers to be cheap in one country and salable in another — will sell in the importing country at a large advance; and doubtless the action of competition in leveling profits and reducing such differences of prices to the "normal" point is not so quick and thorough as the economists are disposed to believe. But on the whole we may reason on

the assumption that under conditions of freedom those commodities which enter into international trade have a common price the world over. The extraordinary cheapening of transportation during the last half-century, the easy transmission of news, the perfected organization of markets and exchanges, contribute to make this assumption a safe one for all the great staples. Customs duties, of course, are an important cause of differences in price; of these something more will be said presently. But the fundamental principles can be best elucidated by tracing their operation under free trade.

Every country will export those things which are cheap in its borders — whose prices are so low that they can be shipped to foreign countries and still sold at the advance needed to cover cost of carriage. And those things will usually be cheap which are produced with a comparatively small amount of labor — those in which the effectiveness of labor is great. A country with high money wages, like the United States, can yet put goods on the market (whether the domestic market or the foreign) at low prices, if its labor is productive. Such is the familiar situation with our great agricultural staples. The money incomes of those who grow wheat in the United States, whether the earnings of the independent farmers or the wages of the laborers whom they hire, are larger than the incomes and wages of wheat-growers in other countries. But the wheat can none the less be sold at a low price in the United States, and can be exported from the United States, because our labor is effective in producing it. Why the labor is effective is no part of the present inquiry. One cause clearly is the abundance of fertile land; a cause no less important is the wide-spread intelligent use of good agricultural machines. These very agricultural machines — to mention another commodity — are largely exported from the United States, though the wages of the workmen who fashion them are high; because the methods of making them have been greatly perfected. To specify still another case, the

earnings of the negroes who grow cotton in our Southern States, low as they may be when measured by ordinary American standards, are higher than those of the fellaheen in Egypt or the ryot in India. Yet American cotton can be sold as cheaply as that of Egypt or India. The soil and climate make the Southern negro's labor effective, and doubtless in some degree a better organization and direction of his labor contribute also to make it so.

All this is but a restatement of the principle that a country will export those things in which it has a comparative advantage. The exposition of that principle, as it is usually found in the books on economics, would be simpler and more telling if it were made clear (the common form of statement fails to make it so) that the things in which a country has a "comparative advantage" are those which are likely to be low in price. International trade, like all trade, though fundamentally a matter of barter, is proximately a matter of price. A country sells abroad those things which it can produce at low prices at home. Ordinarily, those things are produced at low prices at home in which the country's labor is effective.

Proceed now to the next stage: what will be the range of prices for those commodities which do not enter into the sphere of international trade — those which are not exported or imported, but are bought and sold solely within the country? The quantity of such commodities is very great, and in all countries probably much exceeds that of commodities having a world range of prices. Many things are too bulky to be transported over any considerable distance — as stone, bricks, timber. Many are perishable, as milk, butter, eggs, fruits, vegetables. No doubt modern improvements in the transportation of bulky goods and in the preservation of those that are perishable tend to enlarge the sphere of foreign trade. But such things are still sold mainly in their own region and at the prices of their own region. House-room and shelter,

a most important article of consumption and purchase, cannot be transported at all, and so may vary widely in price in different countries. Some of the articles used in building houses — boards and laths, doors and windows, locks and hinges — may indeed be sent to distant regions. But even these are much affected by the customs and fashions of the several countries, and are usually made and sold on the spot or near it. A multitude of articles which might conceivably be brought from foreign countries are in fact made chiefly at home, because of the persistent sway of habit and tradition. Such are clothing and boots, tools and machines, wagons and harness. The reader's imagination will easily enlarge the list. The prices of all these things are determined under domestic conditions. They do not enter into international trade, and have no world level of prices.

Most persons would say that the prices of such commodities — it will be convenient to speak of them as "domestic commodities"— will be high in countries where money incomes are high and low in those where money incomes are low. But this by no means follows. The range of domestic prices in a country, as compared with the range of prices of the same things in other countries, depends on the effectiveness of labor in producing the domestic commodities.

Looking at the United States as our example, we find some things higher in price than in European countries, some things lower. We know, of course, that the exported articles — wheat, corn, flour, meats, cotton, iron, copper — are as cheap, even somewhat cheaper. But how about domestic commodities? Some are dearer, some are cheaper. Comparison is often difficult, because the qualities of things vary; but every-day observation suffices to establish significant differences. Wheat and flour are cheaper, yet bread from the bake-shop is dearer. Most fruits are as cheap or cheaper in the United States, especially when they have been transported some distance. In the immediate region of fruit-growing,

fruits are often cheaper in Europe. Eggs are dearer in the United States. Milk and butter are usually dearer also. Bituminous coal is, in most parts of the United States, as cheap or cheaper. Anthracite coal is dear; but comparison with a corresponding article in European countries is not easy. The simpler kinds of cotton clothing are cheaper. Boots and shoes are as cheap, probably cheaper. Woolen clothing is dearer. Here the effect of the duties on wool must be reckoned with; but ready-made woolen clothing is not so high in price as that made to order. Household furniture is cheaper; hardware and kitchen utensils are probably also cheaper when due allowance is made for quality. All things that involve personal service — cab fares, hotel charges, servants' wages — are markedly higher in price.

An interesting case, and one that serves to bring out both the difficulties of comparison and the working of the underlying forces, is that of house-room. The amount that is actually paid out for house rent is, scale for scale in the social stratification, higher in the United States. But in most cases more is got for the money. The space is ampler, the lighting better, the appurtenances more convenient. Persons of the well-to-do class who spend a season in Europe will commonly pay less for house rent than they would expect to pay in the United States, but they are commonly content with less agreeable and convenient accommodations. A significant difference is observable between houses made chiefly of wood and those built of brick and stone. Masonry work is dearer in the United States; wood work is as cheap or cheaper. Houses of brick or stone cost more to build than in Europe; if built of wood, they cost less. The explanation is that machinery can be applied to manipulating wood more easily than to brick or stone. Given the same efficiency of labor, the same output per day per man, and it is evident that if you pay higher wages you must charge higher prices. Such in the main is the case with brick and masonry work

in the United States as compared with Europe. Brickmaking and bricklaying, stone-cutting and masonry, are done chiefly by manual and artisan labor, even though in brickmaking and in stone-cutting there is probably in the United States somewhat greater use of power and machinery than in Europe. Wages being higher, and the output of labor no greater, prices must be higher. Wood working, on the other hand, from the rough-sawn timber to the last molding on the door or windows, is done in the United States with a great use of machinery; and, what is most significant, with a *greater* use of machinery and labor-saving devices than in any other country. Labor is thus made more effective, and, though more highly paid, its product is not necessarily sold at a higher price. Given a sufficient advantage, and the product will even be cheaper. If the work on your wooden house is all done on the spot by carpenters, it will be dearer in the United States; but, if the carpenters simply put together in short order the machine-made pieces from the saw-mill and factory, it will be cheaper in the United States. The last-named is the way in which the great majority of houses are built in the United States for persons of small means or moderate means; and such houses are as cheap as in Europe or cheaper, and the house rent for them, quality and convenience considered, is as low or lower.

This explanation of the range of house rents applies, strictly speaking, only to the selling price, or capital value, of the building and improvements. The rental is compounded of a return on this investment and of premium for the advantage of the site, namely, economic rent proper. The first of these items, interest on capital, is affected by causes very different from those that govern prices and wages. The rate of interest may be high where money wages are low, and low where wages are high. In fact, however, the variations in the rate of interest among civilized countries are not so great that we have here an important qualification of our conclu-

sions as to the causes acting on the price of house-room. Differences in the cost of building will affect this part of the rental much more than differences in the rate of interest. As to economic rent, the case is simpler: this return may be expected to vary *pari passu* with money incomes. To apply the familiar theorem, rent is the result of price, and not among the causes of price. Where the general range of wages and of incomes is high, the amount that will be paid for an advantageous or indispensable site will be correspondingly high. Hence, looking at all the elements of the case, we are prepared to learn that the rents of tenements in New York City are high. The investment in them is heavy. Their brick work is done by highly paid artisans, with little use of labor-saving machinery. A crowded population, with a high range of money incomes, causes economic rent to rise to portentous heights. In smaller cities and in the suburbs of most larger cities, on the other hand, modest wooden houses for artisans are cheap. Economic rent enters little, and the cost of building is comparatively low.

Similar reasoning can be applied to the rental of business structures. The modern steel-frame office building in the United States probably costs less per unit of available space than similar buildings in Europe. The brick or stone business structure of the older type probably costs more. The total rental is a compound of interest and economic rent, the latter exercising a preponderant influence on those sites where there is demand for the enormous amount of floor space provided in the huge office building.

Ordinary pick-and-shovel work costs more in the United States: sewer-digging, street-making, the grading of a railway. Wages are higher, and, man for man, no more is accomplished or little more. It is, indeed, often said that the efficiency of common labor is greater in the countries of higher wages: the laborer, getting more food, can do more work. There is doubtless truth in the assertion, when com-

parison is made between the wages and the output of laborers in starvation countries, like British India, and the wages and output of countries where life is less cheap. But I have always been doubtful as to the sweeping applicability of this sort of reasoning. The rice-fed Chinaman or Japanese seems to do as much in a day as the beefy Englishman; the frugal Italian as much as the extravagant Irishman. On the whole we may expect the product of ordinary manual labor to cost more (in money) in a country like the United States. No doubt much work that seems to be solely of this kind is affected by the degree and extent to which machinery and labor-saving devices are used. The familiar apparatus of sewer-construction in the United States is vastly superior to anything of the sort in common use on the continent of Europe. The same is true of the railway contractor's outfit. So far as the American engineer and contractor can secure by such means greater results, the high money wages do not entail high expenses and high prices.

Railway freight rates are on the whole lower in the United States. That they should be lower or as low, notwithstanding the higher wages of all railway employees, is clear proof that the efficiency of railway operation in the United States is greater than in Europe. The lower rates for freight and the greater extension of facilities for long distance traffic go far, again, to explain the comparatively low prices of many commodities — fruits, coal, even bread-stuffs and meats. One great cause of the general effectiveness of labor in the United States and of the wide diffusion of material prosperity has been the extraordinary development of the geographical division of labor; and for this the widely ramifying railway net, and the extent and cheapness of railway service, have been indispensable. Street railway fares, to instance another curious case, are as low or lower in the United States. Even at the lower fares, they commonly yield large profits. The efficiency of labor must be very much greater.

Retail prices — that is, the *spread* between wholesale and retail prices — present a mixed case. If the operations of the retail dealers in the United States are conducted in the same way as in Europe, the advance of retail prices over wholesale must be greater. Otherwise the earnings of the retail dealer will not be on the same liberal scale as the wages and earnings of the rest of the community. But if the retail dealer's work is done, not in the same way as in Europe, but in a more effective way, he can reap sufficiently high gains with no larger margin of profit. Both situations seem to exist. The large department store in the United States is probably conducted with greater efficiency and with no greater advance of retail over wholesale prices than in European countries; though the recent rapid growth of this sort of shop-keeping in Europe makes the difference less than it would have been ten or twenty years ago. On the other hand, a great deal of retailing — probably the greater part of the sum total of this sort of work — is still done on a small or modest scale. The grocer, butcher, apothecary, must usually be near his customer. This means that the operations are scattered and are conducted on no large scale. In such case the advance of retail prices over wholesale — the retailer's "profit"— is greater in the United States. Hence it may happen that an article whose wholesale price is lower in the United States and which is exported from the United States to Europe, may yet be dearer here to the retail purchaser. Expense of transporting the great staples across the ocean has been reduced to a very narrow margin, and the slight difference caused by this in wholesale prices may be more than balanced by the greater advance of retailer's prices in the country of higher money incomes. Butcher's meat may cost the consumer more in the United States, even though dressed beef be sent by the shipload across the Atlantic.

Persons of the well-to-do classes find the expenses of living

higher in the United States than in Europe; and to their mind there is no question that prices here are higher, and higher in proportion to the higher range of money incomes. The explanation is partly that much of their expenditure is for personal services; partly that another large fraction of it is for those articles, imported and other, which are really high in price; partly that a higher scale of comfort and luxury has been established by prevalent prosperity. The items that are most conspicuously dear in the United States and cheap in Europe are the various kinds of service — domestics, cabs, hotels. Where the range of wages is high, these things are expensive. Wages for domestic service are particularly high in the United States, because the spirit of democracy makes the occupation distasteful. Again, the expenditure of prosperous Americans at home is directed in large degree to the less hackneyed and less common articles — to the hand-made things rather than the machine-made things. The hand-made things are dear in a country where money wages are high. Clothing made to order is dear, though ready-made clothing is by no means dear in the same degree. Factory-made furniture is cheap; custom-made furniture is extremely dear. Cab fares are high; street railway fares are low. Imported articles of course would be no higher in price than abroad, or very little higher, were they admitted duty free. Being subjected to heavy duties, they also are expensive. It is probable that the most effective part of our protective system is now directed against the articles made in larger proportion by hand with the tool, and in less proportion by power with machinery. These are the things most likely to be imported into the United States, and most enhanced in price by the protective duties. These are often, though by no means always, the commodities bought by the well-to-do; and thus there is ground for saying that the social effects of the protective system here are less objectionable than in countries that levy duties on the staples of life.

In sum, it can be said that the United States, though a country of high wages, is not a country of high prices for the great mass of the community. It is so in large degree for the rich and well-to-do. True, the artisans and workingmen and farmers have a high scale of living, for they have plenty to spend; but the domestic articles they buy are on the whole not dear. They are not dear, because the effectiveness of labor in making them is not less than that of labor in making the exported articles. Imported articles which are duty free, like tea and coffee, are as cheap (barring cost of carriage) as in foreign countries; and here also the American gets the full benefit of his higher money wages. So far as the protected articles are concerned, his advantage is simply thrown away.

What has been said of the United States, the typical country of high money wages, applies *mutatis mutandis* to countries of low wages. In a country of low money wages domestic prices may or may not be low. Such a country is usually, though not necessarily, one with an all-around inefficiency of labor. Those articles as to which its labor is least inefficient, and which are transportable or for other reasons salable abroad, will be exported. Though they may be turned out by ineffective labor, they can yet be sold at the international price because the money expenses of production are low. Domestic commodities — namely, such as are not exported or imported — will be comparatively low or high in price, according as labor in producing them is effective or ineffective. The wages of servants and other like expenses of the well-to-do are sure to be low.

Our next inquiry is, what causes high money wages? The answer in brief is that those countries have high money wages whose labor is effective in producing *exported* commodities, and whose exported commodities command a good price in the world's markets. The general range of money

incomes depends fundamentally on the conditions of international trade, and on those conditions only. The range of domestic prices then follows: it is high so far as the output of labor in domestic commodities is small, low so far as the output of labor in domestic commodities is great.

The situation is simplest in the case — difficult to find in the real world, but instructive for illustration of the principle — of a country having a monopoly of a given article of export or set of exported articles. By monopoly, of course, is here meant not that the producers within the country fail to compete among themselves, but that the producers of no other country compete with them. The price of such exported articles will depend, in the manner with which the reader may be supposed familiar, on the equation of international demand. The more the consumers in other countries care for them, the higher will their prices be pushed. The less the labor with which these articles are produced at home, the higher will be the money wages resulting from these high prices. The higher money wages in the exporting industries will set the standard for money wages in the country at large; but the general high wages may or may not be accompanied, as already explained, by high domestic prices.

Where a country exports in competition with other countries — the well-nigh universal case — the same forces are at work. The prices at which the exports are sold depend on the world demand for the commodity. In that world demand, or, to speak more carefully, interplay of demand, the extent to which the consumers in the several countries care for the articles imported into them determines which countries shall sell their exports on advantageous terms. Those countries whose exports are in most urgent demand will have the greatest possibility of high money incomes. Whether that possibility will be realized — whether they will have high incomes, in fact — depends on the labor cost of their exports. The wheat which is exported by the United States

and by Russia sells at the same price; but that price means large money returns in the country of machinery, efficient labor, and cheap internal transportation, and low money returns in the country which lacks these advantages. In the language of Mill,[2] "What a country's imports cost to her is a function of two variables: the quantity of her own commodities which she gives for them, and the cost of those commodities. Of these, the last alone depends on the efficiency of her labor: the first depends on the law of international values; that is, on the intensity and extensibility of the foreign demand for her commodities, compared with her demand for foreign commodities."

Where a country produces and exports specie — gold, let us say — the case may seem to be different; yet a little consideration will show that the forces at work are the same as in countries producing other articles of export. A gold mining country may or may not have a high level of domestic prices. Gold is indeed a commodity which always is readily taken by foreign countries. The demand for it is sometimes said to be limitless; more carefully stated, it is constant. All the gold produced will be taken, and will be distributed over the world among virtually all the trading countries, at rates of payment which will be very slightly modified by any annual or decennial increase in the quantity sent out from the mining countries. If now the gold is produced, and produced freely, with little labor — if it is cheap in that essential sense — the mining country will have high money incomes. Such was the case in California and Australia during the first days of the gold discoveries. Prices of all things were high in those days; for in commodities at large labor was by no means productive. In a country where gold, though mined, is not produced under advantageous conditions — where the mines are poor or mining methods at a low stage — money wages will not be high; and the gold will

[2] Mill, *Principles of Political Economy,* Book III, chap. xviii., § 9.

not be mined at all unless it yields as large money incomes as other possible articles of export.

In the case of a gold mining country we may note a qualification which indeed should be borne in mind for all countries and for all commodities: it is to be assumed that the exporting industry does not partake of the character of a monopoly *within* the country. In the placer mining days of California and Australia any laborer with a pan and a stock of provisions could join in the hunt for gold, and high money wages were a matter of course. When more elaborate mining set in, high wages still continued, so long as the mining capitalists competed among each other for laborers. But if some of the mines were highly productive and others much less so, the productivity of labor at the margin of mining would fix the range of money wages. There might be advantageous production and heavy exportation of specie, without a high range of wages, if the exports came predominantly from the better mines. And if the mines were all owned and operated by one person or organization, the greatest richness and productiveness need not result in high wages. All the treasures of Potosi, however little labor they cost the wretched native, never could bring him high returns, even in money. And similarly, if all the exporting industries of the United States were under such control as are the production and refining of petroleum, then the general range of money wages, however great the productiveness of labor and however strong the foreign demand for the articles, would not necessarily be high, and certainly would be less high than under conditions of unrestrained competition.[3]

[3] The foundation for all such discussion as this was laid by Ricardo, whose genius nowhere shone so brilliantly as in his illumination of the theory of foreign trade. But Ricardo, so far as I know, referred only to general prices as being subject to variation between different countries. Senior seems first to have laid it down explicitly that the range of money incomes depends on the conditions of foreign trade (*Lectures on the Cost of Obtaining Money*, 1830, pp. 13–16). Mill spoke sometimes of high prices, sometimes of high incomes, as the result of favorable

There is an important sense in which it is true that a country whose position in international trade is advantageous has not only high money incomes, but high prices as well. In the preceding pages, domestic prices have been said to be high or low, if the prices of given commodities are higher or lower than the prices of the same commodities in other countries. Thus the price of a wagon may be spoken of as high or low in the United States if it is higher or lower than the price of the same sort of wagon in Europe. Similarly, railway and street railway fares and house rents may be reckoned low if they cost less money than similar things in Europe. But we may compare wagons and fares and rents, not with European rates, but with the prices of the same things at a different time and under different conditions in the United States. So considered, it is obvious that they are likely to vary with wages and money incomes. They will probably rise as money wages rise, and fall as money wages fall.

If we suppose, for example, that the conditions of international demand change to the advantage of a given country, that its exports sell on better terms, and that money incomes in the exporting industries rise, we may expect that the same rise in money incomes will spread to other industries. This

conditions of foreign trade, and did not pause in his exposition to consider the relation of money incomes and domestic prices. Cairnes followed Senior, though using different language, when he said that a country was interested in having "cheap gold"; by which he clearly meant, though he did not say it in so many words, high money incomes —*i. e.*, much gold for little labor. Cairnes also noted that "cheap gold" did not necessarily mean high prices of domestic commodities. See his *Leading Principles*, Part III, chap v., § 1. In Bastable's *Theory of International Trade*, 4th edition, p. 71, there is a brief paragraph indicating that this able thinker had reflected on the complex relations of money incomes and prices. Professor Edgeworth's articles on International Trade in the *Economic Journal*, vol. iv., take up quite different aspects of the theory. I have found nothing in the writings of French or German economists to show that such topics had engaged their attention at all.

will necessitate in those other industries a rise in prices. In the exporting industries the higher wages will be the result of higher prices; but in other industries higher prices will be as much a result as a cause of higher wages. The process of adjustment and enhancement will probably be slow and uneven, and will take time. In an immobile country, where custom and tradition have a strong hold on prices and wages, it may take a generation. Even in a mobile modern country, it will take years. But domestic prices will be higher in the end than they would otherwise have been. This, no doubt, is the sense which the older economists really had in mind when they set forth that a country having favorable terms of international trade would possess high prices. But their mode of stating the case might be easily understood to mean that domestic prices in such a country were higher than prices of the same things in other countries, which is a different proposition, and, as we have seen, a doubtful one.

Further, it is not certain that under the conditions thus assumed domestic prices will rise at all. *Pari passu* with the rise of money wages due to the country's better position in international trade, there may be improvements in the arts or the opening of new resources, which will reduce domestic prices or prevent them from rising. Given this force in operation on domestic prices at the same time with a turn in international trade causing money incomes to rise, and the parallel movement of wages and prices will be broken. Such was the general trend — rising wages and falling prices — through the last thirty years of the nineteenth century; it may prove to be again the trend before the close of the present century.

The experience of the United States during the last quarter of the nineteenth century serves to illustrate the principles just stated, precisely as the general range of our domestic prices has served to illustrate the relation between international trade and domestic prices. A striking phenomenon in

the international trade of the United States during this period was the insistent demand of foreign countries for our exports; and at no time was this more striking than during the closing years of the century. The main items in our exports are still the great agricultural staples: cotton, wheat and flour, other grains, meat and meat products. These are necessaries, or articles of enjoyment so habitually in use that they are very reluctantly dispensed with. The increase of population and the slow steady rise in the standard of comfort the world over, and particularly in European countries, caused an unrelaxing growth in the demand for them — a demand checkered indeed by the accidents of seasons and crops, and by the oscillations of industrial activity, but on the whole advancing without relaxation. So far as our imports are concerned, some are in similar strong demand on our part: coffee, sugar, tea, are insistently called for. But the imports of manufactures are mainly in a different case. They are articles easily dispensed with, more quickly dropped when their prices are high or times are hard, less easily stimulated to further use when their prices are lowered. All this brings it about that our exports are more easily and certainly disposed of abroad than imports are disposed of here. Hence specie tends, on the whole, to flow to this country (or, what comes to the same thing, the domestic output of specie is retained within our borders), and money wages and domestic prices tend to be high. That is, money wages tend to be high as compared with foreign countries, and domestic prices tend to be high as compared with what they otherwise would have been in our own country.

The forces which have brought about these consequences have not acted with uniform pressure. There has been a succession of pushes. Recurrently, periods have come when large crops of cereals in the United States have coincided with short crops in Europe or when the American cotton crop has declined or failed to grow. Then the insistent European

demand has made itself felt with sudden effect. Exports have swollen and have exceeded the imports; specie has flowed in; a period of excitement, rising prices and speculation, has begun. Such was the nature of the upward movement of 1897–1903. The revival of activity after the depression of 1893–97 was due to the slowly gathering demand for the staple exports; and the maintenance of activity was due fundamentally to the same increasing demand.[4] Hence imports of specie, retention of the domestic specie product, rising wages, rising prices. The rise in money incomes was well-nigh universal. The rise in domestic prices was less so, because offset here and there by improvements in the arts. All the demands of trade unions and all the scales of higher wages were immensely promoted by these conditions, if, indeed, they were not mainly caused by them. Labor unions, strikes, trade agreements, were the mechanism by which the fundamental cause has worked out its effect. That mechanism, no doubt, has important independent effects of its own; but it is not to be supposed the sole force or the strongest force in operation.

The favorable position which the United States thus has in international trade reacts on the effects of the protective system. That system has checked the demand for imports, and made it more difficult for foreign countries to provide the wherewithal for discharging their obligations on account of the exports which they want so insistently. The result has been that money incomes in the United States, which would be high in any case, have been pushed even higher; and thus domestic prices also have been held higher. On the other hand, the prices of imported goods have been depressed — either actually lowered or kept lower than they would have been — and the people of the United States have gained as

[4] See the excellent analysis of the economic history of the United States during this period by A. D. Noyes, in the *Quarterly Journal of Economics*, vol. xix., February, 1905. Compare also the article by A. P. Andrew in the same journal, May, 1906.

consumers of imported goods. So far as they have been successful in stimulating the domestic production of goods that would otherwise have been imported — that is, so far as the protective system has achieved its avowed effect — this gain has been simply thrown away, and a loss has been substituted for it. But so far as importation has continued, the gain has been really secured. Many imports come in over the tariff barrier. These of course are raised in price over the foreign price by the extent of the duties; but the treasury then gains what the consumers pay, and other taxes are presumably dispensed with; and the foreign price itself is lower than it would otherwise have been. As to duty-free imports, there is obviously a clear gain. They are lower in price, and the money incomes for buying them are higher. Whether the loss in buying the home-made protected commodities outweighs the gain in buying the commodities that continue to be imported is quite impossible of calculation. The ardent protectionist might find in this sort of reasoning a tenable ground for supporting his policy in a country situated as the United States has been; but few protectionists follow the strict logic of economics far enough to perceive the advantage which they might thus vaunt.

A last word may be said as to the relation of all this reasoning to the modern development of the theory of value, and more especially to the question how far value depends at bottom on utility, how far on sacrifice. The Ricardian assumption — tacitly followed in the preceding pages — was that in domestic exchanges values and prices depended on sacrifice, on labor. Those commodities, it was supposed, whose labor cost was low would be low in price, and so would tend to be exported. But do value and price depend on labor cost? Are there not, to use Cairnes's convenient phrase, noncompeting groups? And is not utility the permanent regulator of value? If so, what of the reasoning which assumes

that effectiveness and labor cost determine which commodities shall be cheap in money, and so shall be exported from a country?

Some allowance for this turn in the reasoning was made by the older economists. Exceptionally low wages in any particular industry, it was pointed out, had the same effect in international trade as low labor cost. Either served to give a comparative advantage, and to cause a commodity to take its place in the list of exports. Slave-grown articles were commonly used to illustrate this exception. But an exception it was still thought to be. In the main, labor cost determined value within a country, and so determined what goods should be exported. But, if there be no free movement of labor from group to group, and no correlation of capitalists' expenses to labor cost, will not the whole theory of international trade need to be overhauled?

The answer to this question is twofold. In the first place, there probably is more competition among laborers than the bare assumption of non-competing groups admits. Briefly to state my own view on this crucial matter, I do not believe that competition among workers is so free as to bring about an equalization of reward, and to adjust wages to sacrifice. There are effective obstacles to free movement. There are, in so far, non-competing groups; and value is proximately determined by utility, not sacrifice. But the barriers between groups are not impassable. The higher the differences in reward, the greater the number who get over the barriers and increase the supply in the favorably situated groups. Hence labor cost, sacrifice, are always in the background, so to speak, and prevent the sway of utility over value from being unqualified. The greater the deviation of value from equivalence to sacrifice, the less is it likely to persist. In the long run, competition between workers exercises not a dominating, but a correcting influence.

However this may be, there is a second reason why the

theory of international trade does not need on this score serious modification. Goods are rarely made by workers of one grade only. The day laborer does not make one thing, the mechanic another, the engineer a third. They join in the combined labor applied to all the various commodities. Now, if the relations of the different grades to each other are the same in different countries, and if the same combinations of labor are used for any one article, the conditions of competition between the countries are precisely the same as if within each country labor cost alone determined value. If the earnings of engineers are twice as high as those of mechanics in all the countries, and the earnings of mechanics twice as high as those of day laborers, and if, moreover, the same combination of the labor of all three is used throughout in making the same commodity, then those things will be cheap which are produced in a given country with comparatively little labor, and those things will be dear which are produced with comparatively much. The former will tend to be exported, and the latter will tend to be imported.

It is not to be supposed that there is, among different countries, such absolute identity either in the relations of the different grades of labor as has just been assumed or in the way in which the grades are combined for the operations of production. Though the phenomena of social stratification are on the whole similar in the civilized countries, new and old, there may be important differences. A particular group of workmen may be in higher demand in one country than in another. Their wages may be particularly high in the first country. If so, though their labor may be efficient, its product will be comparatively dear in price. On the other hand, a particular kind of labor may be so abundant as to be cheap in one country. Its labor may be paid for on a scale which is low as compared with the general scale in that country; and then the effect is precisely the same on international trade as if such labor were comparatively efficient.

Conditions of this kind seem to have developed in the German chemical industry, and to have constituted an important factor in its remarkable development during the period preceding the war. Chemists were cheap — unusually cheap. The industry had at its disposal a highly trained technical staff, at wages relatively low. The effect on trade was the same as if the staff had been unusually efficient; the chemical products could be put on the market at prices relatively low. Probably the staff was in fact not only cheap, but at least as good as in other countries. Either advantage, that of cheapness or that of efficiency, when particularly marked in a given industry, serves to promote the export of that industry's products.

I suspect that a similar situation has appeared in the United States in recent times — a situation in which a particular kind of labor has been paid, if not at decreasing rates, yet at rates that have failed to advance in accord with the general rise in money incomes. Broadly speaking, the pay of unskilled manual labor did not keep pace with the general movement; relatively, it declined. Most money incomes advanced in the United States, and the incomes of skilled mechanics advanced very considerably. But the wages of ordinary day labor, and of such factory labor as is virtually unskilled, seem to have remained stationary, and sometimes seem even to have fallen. The explanation undoubtedly is that immigration on a huge scale steadily maintained the supply of such labor. The pressure for employment on the part of the newly arrived kept down the pay for the simple sort of work they could turn to.

The consequence was that industries making large use of such labor were in a better situation than they had been before, and held their own against foreign competition more easily. The general conditions in the United States tend to give a comparative advantage to those industries that employ highly skilled labor in larger proportion — those that use

machinery in whose construction and operation such labor plays a major part; for it is here that American industry, taken as a whole, has proved to have special effectiveness, i. e., a comparative advantage. But if unskilled labor is relatively cheap — at a greater discount, so to speak, than in competing foreign countries — the employer may still be able to use it with profit in competition with the foreigners. One of the striking changes in the economic development of the United States during the last generation was the growth of manufactures using such labor, the steady decline in the prices of their products, and their lessening dependence on support from the protective tariff. Such were the manufactures of pottery in its cheaper grades, of silk goods, of textiles in general. The cheaping of bituminous coal and of coke seems to have been part of the same phenomenon. The boasted advance of manufacturing industries was thus due in some degree to a change, not entirely welcome, in social conditions. No doubt other causes also contributed: the discovery and utilization of great natural resources, improvements in methods and machinery more rapid than the improvements in foreign countries, and protective duties pushed up to the highest limit. But it remained true that the comparative degradation of the lowest stratum in the social structure was a contributing factor.

A situation of this sort is not likely to endure indefinitely, least of all in a country like ours, where the general conditions promote mobility of labor. Moreover, legislation for checking the continuing inflow of immigrants, such as that of the illiteracy test, tends to remove the underlying cause. It would be idle to speculate on the movements of population that will follow the war in Europe or America, the changes in the rates of wages, the coming industrial conditions. The case, as it stood for a considerable period, serves to illustrate how differences in wages, to the extent that they are more marked in one country than in another, influence relative

prices and therefore the currents of international trade.

To sum up the main thesis: so far as there is great effectiveness of labor, there will be low prices of those among a country's products which come within the sphere of international trade, and such products will be exported. This much is familiar doctrine. Domestic commodities, so far as produced with the same effectiveness, will also be low in price; if not so produced, will be high in price. This is less familiar doctrine. And high money wages, in the last analysis, are the consequence not of general effectiveness, but of that which is found more especially in the production of exported goods.

V

HOW TO PROMOTE FOREIGN TRADE[1]

I

It is strange that trade between nations should play so large a part in fomenting war and warlike spirit. Trade, after all, is the peaceful exchange of goods; the more extended and far-ramifying it is, the more we should expect a trend toward peace and a decline of war. Yet rivalry in foreign trade is a powerful adjunct to the forces making for war. It leads unceasingly not only to aggression and contest, but to suspicion, irritation, diplomatic intrigues and squabbles. Doubtless there is exaggeration in the statement that the struggle for trade is the main and sufficient cause of all modern wars; other factors are at least equally potent, not least among them the inborn fighting instinct. Indeed, economic rivalry seems often to be an unconscious manifestation of the spirit of pugnacious emulation. Each nation takes a pride in being the first, the victor, in everything — in sport, in art, in letters, in science, in war, and in trade also. We have to deal not with a purely mercenary or material state of mind; it is one of pride and glory, not entirely good, but surely not entirely bad. Whether deemed base or noble, the commercial phase of international emulation has of late contributed less to peace between nations than to war.

Trade rivalry, however, is fomented and embittered by common misconceptions about the relation between foreign trade and general prosperity. Many persons, perhaps most

[1] An address delivered before the Chamber of Commerce of the United States, at Chicago, April 11, 1918.

persons, think of foreign trade, and especially of exports, as being of cardinal importance to a nation. They speak of the export trade as if it were the one fundamental source of prosperity, and certainly believe it to be a peculiarly important one. It is regarded as the test and measure of national gain or profit, the main thing to be striven for. Before considering the really important problems that confront us, I venture to call your attention to the misconceptions involved in this opinion and to the way in which they add to the difficulty of arriving at a sound national policy.

We all know that foreign trade, and more particularly exports to foreign countries, do not enrich the country by the process of bringing in money. We know it, but constantly forget it. No educated man would put forth in so many words the view that it is the balance of trade, or the difference between exports and imports, that signifies for a country's prosperity. But many educated men fall into a way of talking in which this view is implied. To the man on the street it often seems an obvious and undeniable truth. Whether put forward indirectly, or directly and unequivocally, it is persistent and pervasive.

Now, the one great fact in the normal trade of peaceful times is the extraordinarily small flow of money in the settlement of foreign trade. By "money," of course, in foreign transactions, we mean gold. Though every individual transaction is in terms of money — that is, of gold — and though the aggregate transactions in terms of money are enormous, running into billions and billions, the actual amount of gold that changes hands is insignificant. Very small balances only are settled in specie. By the mechanism of the foreign exchanges, goods are made to pay for goods, just as they are in the mechanism of the domestic exchanges. London used to be the clearing house for the complicated offsets and transfers of international trade, and it was largely through London that the final gold balances were remitted. No doubt we

shall see in the future a shift in the center of international payments. It would be rash to predict precisely to what extent they will cease to be settled through London; but there will probably ensue a considerable dispersion of the clearing transactions. Some will doubtless be effected through London, some through New York, some through Paris, some through Berlin; and eventually there will not fail to be interlocking arrangements between these several centers. But in any case, once the world is again settled in the ways of peace, the movement of specie will be insignificant as compared with the total volume of transactions. All this is so familiar that an apology is almost due for restating it.

Needless to say, also, exports pay for the imports. If there be a permanent excess of exports from a country — a so-called "favorable balance of trade"— it exists simply because there are other things to pay for besides the imported goods, or (in the converse case) other things for which the people of a country have to receive payments than for their exported goods. For the forty years preceding the great war, we had in this country a great excess of exports, year after year; yet we all know there was a very slight inflow of specie. The exports of merchandise were simply the means by which we met sundry other obligations, such as interest on our debts contracted abroad, tourists' expenditures, remittances which newly arrived immigrants made to their relatives in foreign countries, and similar international debit items.

Incidentally, I may remark that one of the things most surprising to the economist is the ease and rapidity with which this enormous and complicated mechanism functions in times of peace. It is remarkable that when a country has large obligations of any sort to meet abroad, even though those obligations in each individual transaction involve a necessity of remitting the equivalent of cash, the movement of actual

cash is so small that the other main resource, the movement of commodities, seems to take place spontaneously. There are some knotty problems as to the precise steps by which this apparently spontaneous movement of commodities is brought about; but, on the face of the facts, obviously it *is* brought about. Gold moves very little; exports pay for imports.

One of the most persistent forms which the popular misconception assumes is that of supposing that the balance of trade between one country and a single other country is of significance. Many think that if we buy more from Canadians than we sell to them, our trade with that country is a losing one. If, on the other hand, we sell more to Canadians than we buy from them, they think it is a profitable one. It so happens that our trade with Canada has at one time been supposed to be in this way disadvantageous, and at another time to be advantageous. Half a century ago we bought more from Canadians than we sold to them, and were thought to be thereby losing money. Of late years we have sold to Canadians much more than we have bought of them, and have been thought, conversely, to be making money. The simple fact, familiar enough to persons conversant with international dealings, is that balances of this kind, one way or the other, are settled and disposed of by compensating dealings with other countries. During the earlier period, when we bought more from Canada than we sold, we were enabled to effect our payments through exports to England. These supplied the basis for sterling exchange and served to settle our balances with Canada. In more recent years, precisely the converse operation has taken place. We have sold more to the Canadians than we have bought from them. But the Canadians have sent heavy exports to England, and they have also borrowed heavily in England; and it is their credits in England which have enabled them to pay for the goods which they have bought of us. From South American

countries and from the far east we have bought, year in and year out, more than we have sold to them. We have been enabled to pay for the commodities thus bought because of our heavy exports to other countries, chiefly to Europe. The balance of trade between any pair of countries is rarely such as to bring about an equalization of their exports and imports. It is in the grand total of a country's transactions that we find the equalization of imports and exports, or rather the equalization of all of a country's international debts and credits; and it is this broad equalization which serves to bring about a settlement without the flow of specie.

It may be pointed out that the great war, which disrupted all international trade and all its mechanism, brought unique consequences as regards this particular phase of dealings between nations. Although in times of peace the balance of trade between one country and any single other country signifies nothing and does not affect seriously the flow of specie between them, the case became different under the conditions of the war, and particularly under the conditions which developed after our own entry into the war. The balance between each pair of countries did come to be of real moment. In times of peace the Americans had been able to pay for their heavy imports of coffee from Brazil or raw silk from Japan through credits based on heavy exports of bread-stuffs and cotton and copper to European countries. London was the clearing house for these transactions, which were disposed of irrespective of the particular relations of the United States with Brazil and Japan. But all this mechanism was broken up by the war. Our exports were largely on government account; and we got for them not credits in London upon which we could draw, but the promises to pay (the bonds) of foreign governments, which were tucked away in the United States Treasury vaults and for the time being were not available for any financial purpose. Accounts in Brazil or Japan or Argentina had to be squared in some other way. The ex-

ports of specie to them took place almost solely as a result of their special dealings with ourselves. But these were war problems, not peace problems; abnormal and temporary, and to be ignored in a consideration of permanent conditions and permanent policy.

The great war brought abnormal conditions in other ways. As I have just said, the usual machinery for the equalization and settlement of international payments broke down. The United States, during the period of our neutrality, did indeed receive great amounts of actual gold, in payment for extraordinary exports. After our participation in the war, we arranged to end this inflow of gold once for all, and to accept from our allies their promises to pay. And yet the previous flow of specie, astonishingly great as it was, lasting as it did for a period astonishingly long — through the first three years of the great war — illustrates the principles with which it seems to be in contrast. True, we received unusual amounts of specie; but were we made richer thereby, or more prosperous? The result was higher prices, higher wages, higher cost of living, all the phenomena of inflation, all its attendants of feverish speculation. We should have been better off if we had received not the gold, but the things which we ordinarily receive in payment for increased exports, namely, a heavier volume of imported commodities. Under normal conditions we should have received very little specie, but much coffee, sugar, spices, wool, tin, jute, sisal; doubtless also more of finished manufactured goods, such as cottons, woolens, linens and silks. It is the abundance of these commodities which signifies true prosperity. The influx of gold resulted simply in the cheapening of gold, that is, in a general rise of prices. It supplied the basis for an expansion of credit which inaugurated the too familiar conditions of inflation. These were accentuated after our own participation in the war, still stimulated by the great fund of specie which had come in before.

A further word of introduction and explanation may be added on another general aspect of trade between nations.

The labor and capital which we put into our exported commodities serve to procure for us the imported commodities. That labor and that capital may be said with perfect accuracy to *produce* the imported commodities. In the same way, the labor which the Dakota farmers put into wheat growing procures for them, and may be said to produce for them, the shoes, iron, and sugar which they buy from New England and Pennsylvania and Colorado; and the labor which the New England operatives put into manufacturing boots and textiles procures for them — may be said to produce for them — the wheat and flour which they buy. The prosperity of any one geographical group depends both upon its turning out a large quantity of the immediate products of its own labor and upon exchanging those products for other products. Our foreign trade, our combined imports and exports, promote our prosperity as a people if we produce effectively and cheaply commodities which we export, and if we also exchange those exported commodities on advantageous terms for the imports. It is the first-named factor which is the more important: the gain which we secure from our foreign trade depends chiefly on the effectiveness with which we apply our labor to produce exports.

Now to this proposition I invite attention somewhat more carefully because on it hinges what I shall say presently concerning the way in which we should shape our commercial policy. Our foreign trade promotes our prosperity if we make our exported goods effectively and cheaply. The fundamental factor is the *effectiveness* of our labor and capital, and the cheapness with which we can consequently put our commodities at the disposal of foreign purchasers. By cheapness is meant, cheapness all things considered; quality as well as quantity, good quality as well as moderate price; or, if the price seem high, quality so good as to make the high

price worth while. Sometimes the needs of other people are satisfied by giving them large quantities of goods of poor quality at a low price; and a considerable part of the export trade of England and Germany is secured in this way. The exports from the United States have usually been good rather than cheap — not so much low in price, as good in quality and moderate in price. But in any case it is the effectiveness of our industrial powers in producing a thing which is cheap in comparison with its quality that underlies all prosperous foreign trade. The very existence and maintenance of exports rest on this basis. All trade promotion, all banking and transportation facilities, all trade agents and embassies, all agitation, all patriotic devotion, avail nothing if this fundamental factor be lacking.

The effectiveness of labor and capital means something different from that which is usually implied by "efficiency." "Efficiency," as that word is often used, refers to special and individual skill, intelligence, and activity on the part of the individual workman; to his mental endowment or personal aptitudes or muscular strength. Now it is true that the high standard of living and the greater spirit of activity in this country do bring it about that our workmen are, man for man, more efficient than those of foreign countries. But it is not solely or even primarily efficiency in this sense that is had in mind when speaking of the effectiveness of our labor and capital. The terms refer to the cumulative influence of *all* the factors which combine to bring about the final production and final putting on the market of the exported commodities. The factors are many and diverse: not only the efficiency of the individual men, but ingenuity on the part of inventors and engineers in perfecting machinery, skill in the designing and organization of plants, brains and enterprise in management, intelligence in the distribution and sale of the goods. No small part is played by transportation and especially by inland transportation.

Whatever may be charged against our railways, they have succeeded in cheapening transportation immensely, especially in long-distance hauls, and they have been a powerful factor in increasing the effectiveness of the total labor of the industrial processes. And, throughout, the thing which probably tells most of all in assuring a combined effectiveness of our labor and capital is industrial leadership. It is this which has made the modern economic world; it is this which justifies business and the profits of business. I need not say that this means also leadership in service. Successful leadership implies as its end and purpose, not money making, but service in promoting the effectiveness of industry. That the spirit of successful leadership is the spirit of service has never been more fully demonstrated than during this, the first year of our participation in the war. The business leaders have recognized their responsibilities and taken advantage of their opportunities. They have put themselves at the service of the government and have served without stint in the conduct of its affairs. Money making is evidence of capacity to do service; true success, whether in war or peace, is the rendering of the service.

II

We shall come nearer to the heart of the matter, when we pass from these generalities to some things more concrete and, more particularly, to some conclusions which follow from these simple and incontestable general principles. Let us consider some devices for promoting foreign trade which in the light of these principles appear dubious. They appear dubious because not consistent with the fundamental principle of effectiveness. They are not indeed to be condemned offhand; but they call for critical examination, for careful discrimination, perhaps for rejection.

First of all, and most dubious of all, are export boun-

ties — bounties paid directly by governments upon the export of commodities. These are, on their face, a confession of lack of effectiveness. They mean that the commodities cannot be exported upon their merits. True, they may mean low price in the sale of the commodities, since the exporter makes up for a price in itself unprofitable through the bounty paid him. But that very circumstance indicates that the sales do not mean low cost or, what amounts to the same thing, do not mean high effectiveness. The bounties do not really cheapen your goods in the important sense of cheapness; they mean that a payment from the public purse makes up for a lack of effectiveness. Remember that, in the last analysis, the labor which procures imports is the labor which serves to produce your exports. If an export bounty is paid, you must reckon as part of the total cost of the exports not merely the labor directly applied to them, but also that which is involved in the export bounty. The money for the export bounty comes out of taxes; and taxes mean that a part of the community's labor is turned by the government into the channels for which its payments are made. In addition to the labor needed for producing the exports, we must reckon the labor involved in paying the bounty. A country simply deceives itself when thinking that it gains by this process.

Only if we accept the old and long discarded notion that any foreign sale whatever is profitable, can we conceive of export bounties as being advantageous to a nation. If indeed we take the view that an export sale in itself necessarily constitutes a profit; if we are so ill-informed as to think that the gold actually flows in for every item of exported goods, and so ill-advised as to believe that an unending inflow of gold makes a country unendingly prosperous, then indeed we may think that export bounties promote fundamental prosperity. But the fallaciousness of this way of looking at the matter does not need to be dwelt upon. The exports signify not gold or riches, but imported goods got in exchange; and

if in the payment for those imported goods we also tax ourselves in order to pay a bounty, we lose so much of the real gain from foreign trade.

It is fair to say that direct public bounties upon exports have virtually ceased. The most striking instance of their payment upon a large scale was in the bounties upon the export of beet sugar which were paid for some twenty years preceding 1903 by various continental countries. All these countries sinned, and all of them became in due time thoroughly repentant. The senseless rivalry in bounty paying upon exportation of beet sugar went so far as to make serious inroads upon the public exchequers of several countries, and it was a real relief to all hands when Great Britain in 1903, by refusing to remain longer the one country into which bounty-fed sugar could be dumped upon a considerable scale, put an end to the whole business.

The second dubious device, and one in which the problems are more difficult and complicated, is that of special transportation rates for export business. To simplify the question of principle here involved, and strip it of the political and naval problems that are connected with ocean transportation and the merchant marine, let us confine the discussion to rates for inland transportation. Railroad rates constitute the most conspicuous and the most debatable problem. It must be admitted that most governments do in fact follow the practice of allowing special railroad rates for export business; not only Germany and France and the countries of the Continent generally, but the United States also. Our inland rates to the seaboard on various commodities are lower for export business than for purely domestic business. The Germans are often roundly accused of making reprehensible use of this device. It must not be forgotten that we have done the same under private management of railways, and that our governing authority, the Interstate Commerce Commission, has repeatedly sanctioned the practice.

It is obvious that if a railroad were to transport for nothing — if it were to *give away* the transportation once for all — the case would be the same as that of an export bounty. The article so transported could indeed be sold abroad at a comparatively low price. But that low price would not be a sign or a consequence of effectiveness in production; for there would not be included in the price a real and important element of actual cost, namely, the transportation expense. In such a case we should not be exporting at really low cost; we should be concealing a substantially higher cost. The item of railroad transportation would not be obliterated or saved, but would be simply paid for in some other way. It would be made up either by the railroads themselves out of their general profits, or by the domestic shippers and consumers through higher rates upon domestic business, or by a combination of these processes.

If transportation is not given away outright, but is offered at reduced rates on export business, the case seems to be in essence the same, only not to proceed quite so far. To the extent to which the process of reduction or favoritism is carried, there is a concealment of real cost. Consider the several elements of the situation. The export rate is lower than the domestic rate. But that domestic rate itself may be presumed to be reasonable, that is, reasonable in view of cost of carriage, and based principally on cost of carriage. All our regulatory legislation, our Interstate Commerce Commission, all our state commissions, are established to insure the carriage of traffic at reasonable and proper rates; and reasonable and proper rates are such as conform upon the whole to cost of carriage. If, now, the domestic rate is reasonable, and the export rate is lower than the domestic rate, the export rate will seem necessarily to be *less* than cost of carriage. Such a special export becomes a device for artificially forcing the exports, and is essentially like a bounty; it means sham effectiveness, not real effectiveness.

It must be admitted at once that this is by no means everything that can be said on the problem of railway rates on export business. The railway rate problem is highly complicated. Every student of the relation of rates to cost of carriage knows that cost is almost impossible to allocate with exactness. "Reasonable rates" are extremely difficult to fix with precision. Even though a general average be arrived at which is in right relation to cost of carriage, the determination of such an average does not necessarily lead to the corollary that each individual rate can or should be similarly fixed in direct relation to cost of carriage for the individual item of traffic. Special rates are often justified by special traffic conditions. Special rates upon export traffic may also be justified in view of special conditions. But it would seem that they should be granted only in the same way and on the same principles as any other special rates — perhaps in view of unusual competition by alternative routes, perhaps in view of the utilization of equipment otherwise idle. They should not be granted simply and solely on the ground of export destination. Here, too, we must not delude ourselves with the belief that the mere fact of export, not based upon a real effectiveness in producing and transporting and marketing the exported commodities, brings a special gain to the country. If indeed we believe that any and every kind of export is in itself desirable, that it necessarily brings of itself a net gain to the country, then and then only we shall be prepared to admit, as in the case of direct bounties, that special transportation rates for export are in themselves desirable. Special export rates are open to suspicion on the same ground that export bounties are to be rejected. The case for them must be affirmatively established, like that for every special rate in every branch of railway transportation.

Turn now to a third device, also questionable. What is to be said of special prices made by the producers for export business — lower prices than are asked and expected on

strictly domestic sales? Are they good, and are they to be encouraged?

On the face of it, lower prices for exported goods than for the identical goods sold in the domestic market seem open to the same objections as transportation favors, and seem equally dubious. Here, in the case of railway rates, let us fasten attention to special arrangements resting solely upon the fact of export destination. We seem to be confronted by a similar dilemma. If the export price is specially low, the domestic price must be made specially high, and (it would seem) must be unreasonably high. If the export price is lower than would be warranted by real effectiveness, the domestic price must be higher than is warranted by real effectiveness. If the export sales are at less than cost, domestic sales must be made at more than cost.

This dilemma is most often stated, and most effectively stated, in cases where there is monopoly or something close to monopoly. Suppose that a single concern has control of a given product or set of products; it will often sell in one market at a cheaper rate than in another market. A glaring instance, laid bare by repeated public investigations, was that of the policy which the Standard Oil combination followed in its domestic transactions; it sold in some domestic markets at lower prices than in other domestic markets. Now, if the price in the favored market was sufficient and reasonable, *ipso facto* the price in the non-favored market was more than reasonable. Similarly, if an export price is in itself sufficient and reasonable and in right accord with cost, then the domestic price, if greater, must necessarily be unreasonably high and in excess of cost. If, on the other hand, the lower price to foreigners is in itself not enough to cover costs, then the domestic price must in the long run cover the difference; the domestic price must be too high. And in this latter case the exports, if made at prices which do not in the long run really cover costs, are based not upon

real effectiveness of industry, but upon concealment of real cost, precisely as in the case of export bounties. The practice seems to involve either undue prices to the domestic consumer, or else a sham effectiveness in producing the exported article, not real effectiveness.

Here again, as in the case of railway rates, this mode of dealing with the problem may not probe it to the bottom. If railway rates are highly complicated, some problems of price and of cost in relation to price are almost equally complicated in any large-scale industry. The situation is far from simple; it raises all the questions of fixed charges, of overhead expenses, of cost accounting and the allocation of costs, of business policies in the face of fluctuating demand, of the ways of meeting alternate cycles of activity and depression, of security and continuity in industrial operations. It raises, too, the question of the difference between a sporadic and a systematic application of special export prices. In the early stage of export trade, special allowances on exports may be part of an effective policy of merchandising. Practices of this kind tend to become less widely applied in the later stage of fully developed and continuous export business. There are here unsettled questions not only of economic analysis, but also of sound business policy and of effective industrial leadership.

But when all is said, it would still seem that practices of this sort, namely, special rates upon export trade, must be on the defensive. It needs to be proved that they are really advantageous to the community. At first sight they appear to be disadvantageous — to mean not real effectiveness of industry, but concealment of a cost or burden actually incurred in the export part of a business, yet borne not by that part but by the rest of the business or by the community at large. And here once more let us not fall, as involuntarily we do, into the deceitful belief, or perhaps the flattering unction, that the sending of goods abroad is in itself a thing which brings

money into the country and thereby makes us all more prosperous. Let us hold fast to the fundamental principle that the exports are the means of producing the imports, and that only if there be real effectiveness, real success in the application of our labor and capital, does the country gain.

In all discussions of special export prices and of dumping, a distinction must be borne in mind between sporadic and permanent transactions — between occasional sales at special prices and a permanent policy of lowered prices for export. No one questions that conditions may arise at times in any business venture which will compel the disposal of a block of commodities at any price they will fetch when thrown upon the market. These are not pleasant or welcome conditions, but they must be faced as sometimes inevitable. It is quite a different matter, however, to sell permanently and systematically one part of your output at a different price from the rest of your output. To put it another way, it is more than questionable whether overhead or general expenses should be permanently distributed in such a way that any part of the sales will be made without consideration of this burden, or without due consideration of it. In the long run, and as a matter of permanent policy, every part and parcel of the output should bear its due share of the total cost of bringing it to market. If in the long run it does not so bear its due share — if it is sold in such a way that the overhead or general expense is not properly debited against it — then sooner or later the rest of the output must bear *more* than its due share of the general expense. The overhead must be paid for somehow. No part of a business really pays which fails to pay its proportionate share of the expenses of conducting it. This is no less true of foreign trade than of domestic trade; no less true for the country at large than for a separate business. Sales may be made occasionally without regard to general cost, and even with little regard to the direct or specific expenses entailed for the particular items.

But in the long run, and as a permanent policy, sacrifice sales and special price sales are not profitable to the individual business, and are not profitable to the nation. In our discussions of foreign trade and of foreign trade policy it is the permanent conditions and the long run results which we must primarily bear in mind. The continuous and successful expansion of foreign trade must rest not upon sporadic or occasional transactions, but upon those which can be continued with advantage year after year, and on essentially the same basis year after year.

Fourth and last, is a dubious device of a different sort: special concessions in foreign countries, in the form of lower rates of duty on our goods when exported to those countries. Shall we try to arrange commercial treaties or reciprocity agreements on the basis of assuring to American commodities, when they reach the foreign custom house, lower rates of duty than are exacted on the same commodities when imported from third countries? To simplify this case also, let us set aside any arrangements which are based on particularly close political ties or on geographical contiguity. We have at present, for example, arrangements with Cuba by which American commodities are admitted into Cuba at lower rates of duty than commodities from other countries. These arrangements have a political as well as an economic aspect. They were introduced and justified largely upon political grounds, indeed quasi-sentimental grounds, namely, the close affiliation between this country and Cuba which was the result of our intervention in freeing Cuba from Spain. Let us set aside, also, cases in which there is an extended common frontier. Such a frontier exists between Portugal and Spain, or, to come nearer home, between the United States and Canada. Our border is contiguous to that of Canada over many thousands of miles and the facilities for convenient border trade at many points would readily justify our entering into special commercial relations with Canada. We had such rela-

tions in the past, under the reciprocity treaty of 1854, and on our statute books we still have the reciprocity act passed in 1911, offering freedom from duty for a considerable list of articles on condition that Canada grant to our commodities a like freedom. That offer we still hold open. Cases of this kind — our relations with Cuba and Canada — present some problems of their own, to be dealt with on grounds of their own. The question of principle may be weighed quite on its economic merits, by examining a special arrangement where there are no such special circumstances. Consider, for instance, the arrangement which we now have with Brazil whereby certain American commodities are admitted into that country at lower rates than are imposed upon the same commodities when they reach Brazil from other countries.

Here again the test of real effectiveness may be applied. Special favors in Brazil may enable us to sell our exports to Brazil; but they do not cause us to be really effective in serving either the Brazilians or ourselves. If our exporters cannot do the business without the discriminating rates — if they cannot sell in Brazil without such aid — then the exporters of other countries are obviously more effective in serving them. Our exporters then are bolstered up, not indeed at the expense of our own treasury or of our domestic customers, as in the case of export bounties or of special transportation rates, but at the expense of the Brazilian consumers. Their lack of real effectiveness is made up by the exclusion of the more effective competitors. It is once more a case not of real effectiveness but of sham effectiveness.

Once more, let me not be misunderstood. Ties of friendship and of friendly political affiliation may lead to special reciprocity rates or to special trade agreements, regardless of direct material benefit to one party or the other. Of this our relations with Cuba give a striking example. But the governing conditions of trade in the world at large are not of

this sort. Trade in the main has been and will be a matter of material advantage. In the main we must export on the same terms and on the same conditions as our rivals. If we secure special favors, we can justify them only on the ground that the countries which grant them are willing to make a sacrifice for the sake of carrying on a trade which is not in itself the most advantageous for them. In the long run, however, we cannot expect them to do other than to maintain the most advantageous trade. In other words, in the long run we must rely upon real effectiveness and upon real service, not upon special favors or discriminating rates of duty. That which is advantageous in our own domestic transactions, namely, the maximum effectiveness of labor and capital in production, is also advantageous in our foreign trade, both to ourselves and to countries with whom we trade. All favors, all discriminations, all special rights, all promotion and advertising, sink into insignificance as compared with this fundamental factor. To make our export trade enriching and of real national profit, we must so organize and conduct our industries that we shall make goods plentifully and cheaply, and we must sell our goods on their merits and on tempting terms, to every customer at the same price.

To take this position is by no means the same thing as to adopt a policy of *laissez faire* in foreign trade; neither does it imply any commitment one way or the other on the question of protection and free trade. It does imply a policy of non-discrimination, or at least one of resolvedness neither to discriminate nor to be discriminated against. The United States must hold itself free to adopt such tariff policy as seems suited to its own interests. It must leave to other countries the same freedom. But whatever tariff system we adopt, we should aim to apply it without discrimination to all comers; and whatever system another country adopts we should wish that country to apply to ourselves on the same terms and in the same way as to others. The essential prin-

ciple in the general attitude which I here suggest is that of non-discrimination.

It is conceivable that a policy of this sort cannot be carried out to the full. Indeed, it is certain that it cannot be successfully carried out by merely proclaiming it, or by merely expressing our wish to abide by it. Other countries may adopt tariff legislation which discriminates against the United States. Should they do so, we must be prepared to apply pressure to them, and in case of need to discriminate against them. We now (1918) possess virtually nothing in the nature of a bargaining weapon. Something of the sort is indispensable. We should have provisions on the statute books enabling the administration to meet discrimination by discrimination, force by force. We should be able to say to other countries which refuse to grant us terms as favorable as their terms to third nations, that we shall in turn subject them to unfavorable or discriminating rates. But our purpose in securing and exercising this should be not that of putting discriminations into effect, but that of removing them. The goal, to repeat, should be the open door, the same treatment for all.

To sum up: the four devices for promoting export trade considered in the preceding discussion are first, export bounties; second, special transportation rates on export traffic; third, special reduced prices on commodities sold for export; and finally, lower duties on American goods in foreign countries, secured by negotiation or treaty. Among these the first and the fourth — export bounties and duties discriminating in our favor — are the most dubious of all. The second and third — special transportation rates and special export prices — though they raise intricate questions and are not so clearly out of accord with sound policy, nevertheless have a presumption against them. In all four cases we should at the least pause, and inquire with a fair and open mind whether these several methods of action really conduce

to the prosperity of the United States or the prosperity of nations.

Not only, however, are such devices dubious, sometimes even clearly bad; but they are constant causes of misunderstanding, suspicion, recrimination, international friction. They arouse irritation most of all when they are concealed, or supposed to be concealed. Like many another aggressive act, they stir resentment most sharply when they are furtive.

It is not difficult to adduce cases where there has been concealed or furtive resort to one or another of these devices. One instance of the kind has already been referred to, namely, the much-discussed export bounties on beet sugar from the continent of Europe. They had their origin in a drawback payment which was supposed to be merely the equivalent of an internal or excise tax, but which in fact developed into a bounty because in excess of the excise actually collected. A similar case has more recently been the occasion of a ruling by our own Treasury Department. Certain drawback payments were made by Germany on the export of grain and flour, based not upon the exportation of the identical materials on which the taxes had been paid (in this case import duties) but upon the exportation of equivalent amounts irrespective of identity. Our Treasury Department felt compelled to rule that a virtual bounty upon export had been paid — not necessarily with deliberate intention, but with substantially the outcome of a bounty payment. Cases of this kind are precisely of the sort to arouse suspicion of an intent to circumvent a competitor which does not appear upon the face of the proceeding. The same is true of the preferential transportation rates. True, they may rest on a really sound railway policy; they may be occasioned, for example, by competitive route conditions such as are universally recognized, both in the policies of privately owned and of publicly owned railways, as justifying special rates. Nevertheless, when granted to export traffic, the suspicion always arises

that they rest not honestly upon a sound basis of this sort, but upon something different and dubious. They are believed to evince an endeavor to outwit and circumvent, by hook or by crook, the foreign competitor.

One further case in which misunderstanding and suspicion arise deserves to be noted. The mode in which international arrangements for favors in the way of import duties are brought about may be the cause of irritation on the part of rival countries. The arrangement now in force between the United States and Brazil, admits some American commodities into Brazil on the payment of duties lower than those applicable to commodities from other countries. We thus possess in Brazil the dubious advantage of duties discriminating in our favor. It rests, however, upon no treaty or commercial agreement, but on the voluntary act of Brazil. So far as appears upon the official record, that country, out of spontaneous friendliness for the United States, voluntarily grants us the discriminating duties. Yet any one conversant with the history of our dealings with Brazil knows that the arrangement goes back to a preceding period of negotiations and treaties in which we asked urgently for favors of the same sort. Whatever the formal record, it is not supposed by any open-minded and well-informed person that the favors were granted without persuasion by our diplomatic representatives. Certain it is that they are supposed by other countries to have had such a basis and such an origin. We possess advantages, but do not come into the open and let it be known in what manner or by what sort of persuasion we have succeeded in securing them. Our position, at best not easily defended, is the more open to attack because believed to be not entirely straightforward.

III

I pass now to some considerations of a more general sort. What is our present attitude in the international sphere? All relations between nations are in the melting pot. The great war has opened a new era. We cannot separate our industrial and trade policy from our political and military policy. Whatever attitude we take toward the world in the larger phases of international politics must be reflected in our policy with regard to foreign trade.

One common attitude should lead us to pause and reflect. We are often told of America's opportunity, of the opening made for American trade and American exports by the ousting of the Germans and the crippling of the European countries which are our allies. We have a chance to establish ourselves, it is said. Let us oust our rivals, push our trade, get a firm footing, hold our gains after the war.

Much of the language used in this connection has not a pleasant or a generous sound. It suggests a spirit of rejoicing at a chance to hit one's rival when he is down. We are urged to take advantage of the misfortune and weakness of others, and to establish ourselves in their places in such a way as to prevent them from having any opportunity thereafter. We much resent such an attitude when we suspect it in the case of another country. Should we not sedulously refrain from manifesting an ungenerous attitude ourselves?

The war beyond doubt will alter seriously the old currents of trade. The force of habit is strong in commerce between nations as it is in commerce within a country. Many trade relations of the past have maintained themselves largely by inertia. The war necessarily brings a shock, and makes possible new combinations. The situation is not dissimilar in our import trade. There too the war has precipitated a change. Some commodities formerly imported into the United States may never be imported again. In consequence

of the cessation of imports, goods formerly imported have been made by domestic producers who may hold their own, even without any changes in our import duties, when peace has once been restored. As regards exports also, it will probably turn out that some commodities of which the foreign sale has been suddenly and even dramatically stimulated by war conditions, will continue to be exported after the restoration of peace. All the ties and traditions of former times have been broken. The opportunity is open to all; the field is free. But let us enter it as a free and open field, and not endeavor to make it a closed field of our own. Let us rest our forward endeavors not upon the misfortunes or weaknesses of others, but on our own inherent strength. Let us ask no favors, let us use no unfair or deceptive devices. Let our true strength be revealed, not our weaknesses concealed and overcome by artifice.

These reflections, combined with a rational conception of the significance of foreign trade and of the best ways of promoting it, lead finally to two fundamental conclusions. First, the extension of our export trade should be based upon effectiveness in service — on well-paid labor well applied, and on serviceable goods produced cheaply and offered to all comers on the same terms. Our international trade, like our international polity, rests on a sound basis only if it conduces to the advantage of others as well as to ourselves. We shall exchange goods profitably with other countries if the profit and the benefit of others are no less than our own. And this result is achieved, to repeat once more, not by bounties, not by special prices, not by overt or furtive discriminations in our favor, but by the plain and fundamental fact of doing our work well and doing a service to others. The keynote of our foreign trade policy should be effectiveness in industry, service to all.

Second, our international policy should be frank and open, and in commercial matters that of the open door. The open

door policy, it need hardly be said, means that we wish no special favors for ourselves, and oppose special favors to others. We have adopted it and followed it unflaggingly and without qualification in the Far East. There we have maintained that the United States and other nations should all stand upon the same footing in economic and financial competition. We believe that all negotiation should be simple and straightforward, and that the outcome should be the establishment of the same terms for every one. We wish a fair field, an honorable rivalry. It is our pride that in the Orient we have nothing to conceal, nothing to explain, nothing to apologize for. Our policy in the Occident should be no less the cause for a just pride. We wish for no discriminations in our own favor, we are opposed to discriminations in favor of others. We stand for open dealing, open diplomacy, open commerce. Our democracy is idealistic; our international aims are idealistic; our trade policy should no less rest upon ideals.

VI

RECIPROCITY [1]

I do not propose, in the following pages, to consider the details of the reciprocity arrangements concluded within the last year or two under the provisions of the tariff act of 1890. My object is chiefly to discuss the mode in which reciprocity treaties usually operate, to point out the peculiarities of the form of reciprocity which this country is now applying, and to say something of the general bearing of such arrangements on the problems of international trade.

The mode of reciprocity provided for in the McKinley Tariff Act is unusual. The act gives authority to the President to reimpose duties on certain articles ordinarily admitted free — tea, coffee, molasses, sugar, hides — if he is satisfied that other countries, from which these articles are sent to the United States, fail to reduce their duties on American goods to such an extent as to constitute a reasonable equivalent for our remission.[2] In other words, a threat of

[1] This paper, published in the *Quarterly Journal of Economics* for October, 1892, is printed here without change. The principles stated in it have not been impugned, rather strengthened, by subsequent experience.

[2] The often-quoted reciprocity section of the tariff act of 1890 may be quoted again: "That, with a view to secure reciprocal trade with countries producing the following articles, and for this purpose, on and after the first day of January, 1892, whenever and so often as the President shall be satisfied that the government of any country producing and exporting sugar, molasses, coffee, tea, and hides, raw and uncured, or any of such articles, imposes duties or other exactions upon the agricultural or other products of the United States, which, in view of the free introduction of such sugar, molasses, coffee, tea, and hides into the United States, he may deem to be reciprocally unequal and unreasonable,

imposing duties on their goods constitutes the pressure brought to bear on foreign countries. The usual mode of reciprocity is different. It does not threaten the imposition of new duties, but offers the reduction of existing duties. That the United States adopted a form of reciprocity which has an aspect perhaps of greater vigor and certainly of less courtesy is not the result of any deliberate policy. Like so many things in our tariff legislation, it arose without premeditation. The articles to which the reciprocity provisions apply had already been made free of duty on grounds independent of any desire to further foreign commerce. Tea, coffee, and hides were freed from duty twenty years ago. The abolition of the sugar duty had been settled in the early part of the session of 1890, before the reciprocity scheme emerged. It was impossible to apply to these articles the usual machinery of commercial engagements; and, when a policy of reciprocity was suddenly determined on, the only way of carrying it out was the peculiar one which was finally adopted, as an afterthought, in the tariff act of 1890.

Before discussing the workings of this unusual form of reciprocity, we may consider briefly the effects of the usual form — the remission or reduction of duties in return for

he shall have the power — and it shall be his duty — to suspend, by proclamation to that effect, the provisions of this act relating to the free introduction of such sugar, molasses, coffee, tea, and hides, the production of such country, for such time as he shall deem just, and in such case and during such suspension duties shall be levied, collected, and paid on sugar, molasses, coffee, tea, and hides, the product of or exported from such designated country, as follows": on sugar, about one cent a pound on the ordinary grades; molasses, four cents a gallon; coffee, three cents a pound; tea, ten cents a pound; hides, one and a half cents a pound.

The negotiations and arrangements which finally resulted under the provisions of the act of 1890 are narrated in detail in the Report of the United States Tariff Commission on Reciprocity and Commercial Treaties (1919). The Report covers not only the period of the tariff of 1890 (pages 145–192), but the entire experience of the United States in reciprocity matters.

similar favors by foreign countries. Reductions of this sort have very different consequences according to the conditions under which they are applied. In some cases, they redound to the benefit of the foreign producer: in others, they redound to the benefit of the domestic consumer. Some consideration of these two possible effects will be helpful for the understanding of the general workings of any form of commercial engagement.

Suppose the remission of duty, under the usual form of reciprocity, to be applied to one country only. Suppose, for example, that we remitted the duty on coffee coming from Venezuela, retaining it on coffee coming from other countries. The Venezuelan coffee-planters, and not the American consumers, would get the benefit of the remission. Venezuela supplies — or, rather, supplied — only one-tenth of our consumption of coffee. The remaining nine-tenths, coming from other countries and still paying duty, would be higher in price in the United States by the amount of the duty. The Venezuelan coffee-planters would not sell their coffee for less than other people got: why should they? They would simply pocket the amount which otherwise would have been paid in duties. In general, it may be laid down that any remission of duty which does not apply to the total importations, but leaves a considerable amount still coming in under the duty, puts so much money into the pockets of the foreign producer.

The United States has had one very striking experience of this sort of reciprocity. The treaty made with the Hawaiian Islands in 1876 stipulated for the free admission into the United States of certain commodities, among which sugar was the most important. In return, we got similar remissions in the Sandwich Islands. Hawaiian sugar was admitted free: other sugar paid duty. The Hawaiian sugar formed at the outset only a small fraction of the total supply; and, though it grew very rapidly under the treaty, it never

formed more than a tenth of the supply. It was sold, naturally, at the same price as other sugar paying duty; and the American consumer who used it paid a tax in the shape of a higher price, exactly as he paid a tax on duty-paying sugar. The tax, however, went not into the national treasury, but into the profits of the Hawaiian sugar-raisers. Throughout the period when Hawaiian sugar was free and other sugar paid duty, the price of sugar on the Pacific coast, where the Hawaiian sugar was used, was fully as high as it was elsewhere. Whoever got the benefit of the remission of the duty, it was not the consumer. In this particular case, it should be added, there were some complicating conditions. The capital invested in sugar-raising on the Sandwich Islands was largely owned by Americans. Consequently, the virtual tax still paid by sugar-consumers inured to the benefit of other Americans rather than of foreigners. The effect was much the same as if the tobacco-growers of the Connecticut Valley had been freed from the tobacco tax while other growers still had to pay it. Further, the business of refining this Hawaiian sugar on the Pacific coast got into the hands of a single establishment, the owners of which were largely the same persons who had invested capital in sugar-raising in the Sandwich Islands. These fortunate individuals consequently added the profits of a monopoly of sugar-refining to the profits of a tax paid for their benefit by the consumers of sugar. The Hawaiian treaty therefore presented peculiarities in more respects than one.[3] But we are here concerned chiefly with that aspect of it which bears on the subject of the present article — the effect on sugar consumers and producers. It was clearly the latter who benefited by the arrangement.

Suppose now a different sort of case — a remission of duty

[3] What is said here refers only to the Hawaiian episode as it had developed up to 1892. On its later course see in The Tariff Commission Report on Reciprocity, pp. 103–136; and my book on *Some Aspects of the Tariff Question*, pp. 58–69.

not to a single country, but to a number of countries, so considerable and important that all the importations come in free of duty. Here the change redounds to the benefit of the domestic consumer. No articles continue to come in paying duty, and the remission is virtually the same as a general reduction or abolition of the duty. The effect is the same if the favor is granted to only one country, but that country is able to supply the entire consumption. If, for instance, by a treaty with Australia, wool from that country were admitted free, the effect would be the same as relieving fine wool entirely from duty. The amount of such wool raised in Australia is so great that all we should use would come in duty free; the price would go down by the amount of the previous duty; the domestic purchasers of wool and eventually the domestic consumers of woolens would get their goods so much cheaper.

The most important illustration of this effect of reciprocity treaties in recent times is to be found in the experience of European countries after the famous commercial treaty between England and France. France, after having maintained for centuries a rigid system of high duties, made a treaty with England, in 1860, by which English commodities were admitted at very moderate rates. England in return abolished entirely her duties on silks, and lowered her duties on French wines. The changes made by England were, from the first, of general application: all countries were free to take advantage of them. France, it is true, began by extending her favors to England only. It is probable that even if they had never been extended to other countries, they would have worked like our supposed remission of duty on Australian wool, and not like our Hawaiian treaty. England would have been able to supply most of the goods in ample quantity, and the French consumers would have had the benefit of the remission. But any doubt on this point was settled by the prompt conclusion of treaties giving the same

favors to other countries — to Germany, Austria, Belgium, Italy, Switzerland, and so on. These countries were given the same favors as England, and in return conceded reduction of duties on French goods. In effect, therefore, the machinery of reciprocity led to the general application of a more liberal tariff system in France. Moreover, other countries were led by the example of France to the same course. Germany (or, to speak accurately, the Zollverein), having concluded the treaty with France, soon made similar engagements with other countries; Austria, Belgium, Switzerland, Italy, followed suit; and in a few years after 1860 Europe was covered with a network of commercial treaties, bringing about a great moderation in the general tariff policy of all the continental countries.

A more recent case of the same sort is to be found in the commercial treaties concluded by the German Empire during the present year. For one reason and another, France tired of the system of commercial treaties, and has just substituted for it a different *régime,* one not only of a distinctly protectionist character, but involving a threat of higher duties on non-reciprocating countries, which is not very different from the sort of reciprocity just established by our own legislation. Oddly enough, at the very moment (1892) when France is thus dropping her commercial treaties, Germany is again entering that path. The recent treaties concluded with Austria, Italy, Belgium, Switzerland, provide for reciprocal reductions of duties, which amount virtually to general reductions and so redound to the benefit of the consumers in the respective countries. Thus, Germany lowers her duties on wheat and Indian corn, when imported from the treaty countries; but this reduction has already been extended to grain coming from the United States, and undoubtedly will soon be extended to Russian grain. Of the bearing of this latest move of Germany's on our own reciprocity scheme, more will be said presently. So far as German consumers are con-

cerned, they will certainly get the benefit of the change: their bread will be cheaper.

Obviously, the probabilities are strong that a remission of duties by way of commercial treaty or reciprocity will operate in this second way. Cases like our Hawaiian treaty are rare: a country will not often accept a loss of revenue, and transfer a gain to foreign producers, by remitting a duty on a portion only of its imports. Ordinarily, the remissions of duty by treaty to favored countries become, in fact, general remissions, and serve simply to make trade more free between a large number of countries.

From this sketch of the character and working of the ordinary form of reciprocity, we may turn to a consideration of the peculiar form adopted in our tariff act of 1890. Here the plan is not to remit a duty for countries granting favors, but to impose one for countries failing to grant them. A duty so imposed, like one remitted, may have very different effects, according to the conditions under which it is applied. As the remission of a duty may or may not operate for the benefit of the domestic consumer, so the imposition of a duty may or may not operate to his detriment.

Suppose, for example, that a duty is imposed on coffee coming from Venezuela — a duty which has actually been imposed under the reciprocity provisions. The revolution in that country, as it happens, has complicated the effects of the measure; but it is not difficult to see how it would work under undisturbed conditions. Venezuela supplies us in ordinary times with about one-tenth of the coffee we use. The remainder comes from other countries, chiefly from Brazil. If a duty were imposed on the Venezuela portion, the price, nevertheless, would not rise in the United States; for Brazil coffee would still come in free, and somewhat more of it would quickly come this way if the price rose. The Venezuelans must either sell their coffee to us at a price lower by the amount of the duty — *i.e.,* they must pay the duty —

or else must send their coffee to another market. The latter result would undoubtedly ensue. It might take time to form new trade connections, and might cause temporary loss to introduce their coffee to a new set of consumers; and the embarrassment, while it lasted, might be considerable. But it could hardly last very long; and at all events this temporary loss would represent the effect of the measure on the non-reciprocating country. The American public would not be affected.

The situation would be very different, however, if the duty were imposed on coffee coming from Brazil. The bulk of our coffee comes from that country, and it would be difficult to secure the supply from other sources. Other coffee would indeed come in duty free; but it could not begin to supply our entire consumption. A duty on Brazilian coffee would cause the price to rise in the United States, and the American consumer would pay the tax. Of course, the price of all coffee would go up in the United States — not only of the Brazilian article, but of any other of the same sort that might also come in. Producers in other countries would get the higher price of coffee, but their product would not be subject to the duty: the American consumer would be taxed for their benefit. The situation would be virtually the same as that under the Hawaiian treaty. If one indispensable part of the supply is taxed, the price of the whole supply goes up: those producers who are exempt — the Hawaiian sugar-planters in the actual case, the non-Brazilian coffee-planters in the supposed case — pocket the amount of the tax.

In general, then, it may be said that a duty imposed under our reciprocity legislation will hurt the foreign producer — perhaps hurt him only for a time, but yet hurt him — if he does not furnish a very great part of our supply, and if other countries can easily step in his place. But if the foreign producer sends us the bulk of the supply, and if others cannot fill his place, the duty will tax the American public,

and will put money into the pockets of other foreign producers. We have seen how a duty on coffee from Brazil would work. A duty on hides from the Argentine Republic would probably work in the same way. Our imported hides come in large part from that country, and a duty on them would raise their price here. A duty on sugar from Cuba would work, for a time at least, in the same way. It is true we are not so dependent on Cuba for sugar as we are on Brazil for coffee. Other countries contribute to our sugar supply, and could in time greatly increase their contributions. But Cuba is much the most important source of sugar for us, supplying a full third of the total imports; and a duty on Cuban sugar would cause the price of sugar to go up. After a while, no doubt, by a shifting of the sugar markets and perhaps some changes in production, other countries might send enough free sugar to us to supply our entire consumption, while Cuban sugar would go to England and to other countries not discriminating against it. But, at first, we should pay more for all our sugar; and some part of our extra payments would go to the countries, other than Cuba, from which our supplies come.

Practically, however, we are hardly called on to consider the consequences of a duty on Brazilian coffee or on Cuban sugar. It it very improbable that such duties will be imposed. The President is not likely to exercise his discretionary power in such a way as to bring about a tax on American consumers, least of all a tax which would redound in part to the benefit of foreigners. With important countries, like Cuba and Brazil, a diplomatic use of the possibility of discriminating duties will be relied on. With the Argentine Republic the situation has been different. The financial condition of that country has made it out of the question to secure any lowering of its duties on American goods; yet no duty on its hides has been imposed, or is likely to be. Smaller countries can be brought to terms with ease. One

can be played off against the other, and pressure can be brought to bear on them with little danger of hurting the domestic consumer. The only case of any importance in which a discriminating duty has in fact been imposed is that of Venezuela, already referred to.

So much as to the effect of the possible imposition of our duties on the American consumer and the foreign producer. But there is another important aspect of the reciprocity questions — the effect on foreign countries of the concessions granted by them on American goods. How will these work?

We ask of other countries, in return for refraining from duties on their products, concessions of the usual sort — lower duties, or none at all, on American imports. We demand such favors chiefly from the countries of South America and Central America. The very list of articles on which the reciprocity clause authorizes duties — coffee, tea, sugar, molasses, hides — points to these countries. The mention of tea, it is true, seems to indicate that some effort is to be made with China and India. But nothing has yet been done in that direction; and, indeed, the conditions here are in any case such that a duty would prove a two-edged sword. There is one other region in which concessions have been sought and obtained, and of which a word may be said. The threat of imposing duties on beet-sugar from Germany and Austria has been used to induce these countries to admit American articles at the lower rates which these countries have granted, each to the other, by the treaties concluded in the present year, to which reference was made a moment ago. So far as Austria is concerned, these lower rates are nominal, since the articles affected are such as the United States never would export to Austria under any conditions. With Germany we get a more substantial concession. Some agricultural products, especially wheat, are admitted at the lower duties of the new treaty tariff. Clearly, the concession is one which it was for Germany's own advantage to make.

When Hungarian wheat was once admitted at a lower duty, it was best to admit American wheat also at the same rates. It was not difficult, therefore, to secure this favor from Germany in exchange for a promise to let German sugar alone.

But, to repeat, it is the South American countries that the reciprocity scheme chiefly looks to; and it is in the concessions granted by them that we are likely to find its most important effects.

There are two sorts of goods which we may send to the South American countries: first, goods which we produce very cheaply and in great abundance; second, goods which we do not produce as cheaply as European countries. In the first class belong most agricultural products, especially breadstuffs and meats, and many manufactures, such as furniture, wooden ware, and most tools and implements. In the second class belong articles like woolens, linens, crude iron, and many miscellaneous manufactures. The reader will see at once that remissions of duties will have very different effects on these two classes of goods. On articles of which breadstuffs are representative, lower duties in the South American countries will operate virtually as lower duties for all comers. In wheat, flour, meat products, the United States is the natural source of supply for Cuba, Brazil, and other countries. Lower duties or free admission will bring lower prices to the consumers in the South American countries, and will serve to enlarge the volume of trade between them and the United States. That same holds good of those manufactured goods, not a few in number and importance, in which we have advantages in production. I have mentioned wooden ware and furniture: the list might be indefinitely extended. A wider range of international trade brought about in such articles will be advantageous to both countries.

The advantage to the United States from such arrangements is almost always assumed, in current discussions, to be

secured by the domestic producer of the exported article, and especially by the farmer. But both the extent and the duration of any such advantage are much overrated. Its extent is overrated, because, after all, the volume of our trade with the South American countries is small, and is likely to remain small. The bulk of our agricultural exports goes to Europe. Its duration is overrated, because any increase in foreign demand for our wheat and corn and meats is likely soon to be met by increased production at home, leaving the producer in about the same position as he was at the outset. The real and permanent gainers will be the consumers in both countries — the consumers of our breadstuffs and manufactures in South America, and our own consumers of the commodities imported in exchange from South America or elsewhere. I fear it will be long before this mode of looking at the problems of international trade becomes accepted by the general public. The common notion is still that the great object of international trade is to sell, to dispose of the exports. No doubt the process by which a gain in exports redounds to the advantage of the consumers of the imports is a less certain and unfailing one than the usual expositions of the Ricardian doctrine would lead one to suppose: here, as elsewhere, the machinery of trade works out its permanent and important results but slowly. Nevertheless, it is certain that the consumers of the imports are the persons who gain in the long run by an enlargement of international trade, whether secured by reciprocity or any other way.

Looking now at the second class of goods on which South American countries may be asked to concede lower duties, we find different conditions. These are goods which the United States does *not* produce so cheaply as foreign countries. Here a remission of duties might cause a loss of revenue for Cuba and Brazil, without a gain to their consumers. American woolens, for instance, might make their way in at lower duties, and yet might be as dear as English woolens at

higher duties. In such a case, the United States would be in the ungracious position of forcing a friendly power, by a threat of duties on its goods, to make a concession which would involve a clear loss to its own citizens. But the case is not one likely to occur in practice. Goods of this sort have not been usually included in the list of articles on which, by the treaties recently concluded, duties have been lowered or abolished. The articles affected have been chiefly of the class described in the preceding paragraph — those which the United States produces abundantly and cheaply. Breadstuffs have been by far the most important among them. The manufactured articles enumerated have in the main been such as we make to at least as good advantage as other countries. One possible exception of importance is in the case of cotton manufactures, which have been admitted at lower duties by some of the treaties, and which, in the qualities demanded by South American consumers, our New England manufacturers perhaps could not supply so cheaply as those of old England. It may be said, in passing, that cotton goods are, so to speak, on the line, the margin of difference in price between the American product and the European one being a very narrow one. In such cases, the choice of one product rather than of another is much affected by custom, tradition, the stronghold of established connections. A reciprocity arrangement, giving the United States a preference in duties, might here shift the trade into American hands without causing any real disadvantage to the South American consumer.

But such a change, merely from the reciprocity provisions, is not likely to take place, for another reason. Any lowering of duties which really redounds to the disadvantage of the domestic consumer is not likely to endure. Such reductions are certain, sooner or later, to cease to be preferential: they will be given to all comers. As I have already said, a discrimination such as we gave the Hawaiian Islands, leading to loss of revenue to the government and no cheapening in

price to the public, is very exceptional. The experience of European countries shows that favors in duties soon cease to be favors, being given practically to all countries. The South American countries, so far as they make treaties giving the United States a real advantage over foreign competitors, will extend their provisions to foreign countries. And, surely, no generous-minded American would wish that it should be otherwise. Unless we regard international trade as a game in which each party tries to overreach the other, we must put our relations with foreign countries on a basis which insures a benefit from the exchange to all parties.

The net result of the reciprocity arrangements, therefore, will probably be not to bring special gains to any particular sets of producers, but to enlarge a trifle the general volume of international trade, and so to diffuse more widely the benefits of the division of labor between nations. The gain to the United States will not be great in degree, simply because the volume of our trade with the South American countries is not large, nor likely for some time to become large. In kind, the gain will be of the same sort as would ensue if we lowered other duties or induced other countries to lower their duties still farther. The procurement of imported commodities in exchange for exports, which is the essential benefit of international trade, is usually — I will not say always, but usually — hampered to our detriment by protective duties. If reciprocity arrangements for lowering or abolishing duties on both sides are advantageous, a moderation of our protective duties may be expected to be also advantageous.

VII

COST OF PRODUCTION AND THE TARIFF[1]

THE vogue of the plan of basing the tariff on differences in costs of production is a curious phenomenon, and a significant one. Much talked of as the plan has come to be, it is novel, at least in the United States. Only a faint suggestion of something of the sort appeared in the Republican platform of 1904. Not until the presidential campaign of 1908 did it receive much attention. Then, and later in the debates on the tariff act of 1909, it came to be spoken of as the "true" principle of protection, the touchstone by which the justification of every duty was to be tested. What does it mean, and how far will it avail to "settle" the tariff question?

The doctrine has an engaging appearance of fairness. It seems to say, no favors, no undue rates. Offset the higher expenses of the American producer, put him in a position to meet the foreign competitor without being under a disadvantage, and then let the best man win. Conditions being thus equalized, the competition will become a fair one. Protected producers will get only the profit to which they are reasonably entitled, and the domestic consumers are secured against prices which are unreasonable.

In order to apply the principle, an enormous expenditure of money is necessary. Hundreds of thousands of dollars, even millions, must be spent in order to ascertain the costs of production at home and abroad of any considerable number among the protected articles. Moreover, no one who stops to think will suppose that inquiries of this sort will be easy,

[1] *The Atlantic Monthly*, December, 1910.

or will lead to other than rough and approximate results. "Cost of production" is a slippery phrase. Costs differ in different establishments, and cannot be figured out accurately in any one establishment without an elaborate system of special accounts, such as few establishments keep. None the less, approximate figures are to be had. If the principle is sound, it will be of great service to have careful preparation for its application, and to reach the nearest approach to accuracy that the complexities of industry permit. To repeat — how far is it all worth while?

Frankly, the answer is that as a "solution" of the tariff question, this much paraded "true principle" is worthless. Applied with consistency, it would lead to the complete annihilation of foreign trade. It is usually thought of as likely to result in a moderation of protection. Yet, if carried out to the full, it would lead to the utmost extreme of protection.

Consider for a moment what equalization of cost of production means. The higher the expenses of an American producer, and the greater the excess of the expenses incurred by him over those incurred by a foreign competitor, the higher the duty. Applied unflinchingly, this means that the production of any and every thing is to be encouraged — not only encouraged but enabled to hold its own. If the difference in expenses, or cost, is great, the duty is to be high; if the difference is small, the duty is to be low. Automatically, the duty goes up in proportion as the American cost is large. If the article is tea in South Carolina, for example, ascertain how much more expensive it is to grow the trees and prepare the leaves than it is in Ceylon, and put on a duty high enough to offset. If it is hemp in Kentucky, ascertain how much more expensive it is to grow it than in Russia or in Yucatan (for the competing sisal), and equalize conditions with a high duty.

It was on this ground — though, to be sure, with gross exaggeration as to the facts — that the duties on lemons and

prunes were raised in the Payne-Aldrich tariff: equalize conditions for the California lemon-growers! If lemons in California, why not grapes in Maine? They can be grown, if only the duties be made high enough. Obviously, the more unfavorable the conditions, the higher the duties must be. The climate of Maine is not favorable for grapes; they would have to be grown in hot-houses. But make the duty high enough, handicap the foreign producer up to the point of complete equalization, and the grapes can be grown. So as to Kentucky hemp, or Massachusetts pig-iron. Make your duty high enough — and on this principle you *must* make your duty high enough — and anything in the world can be produced. The inevitable consequence is, however, that the more unsuited the conditions are for efficient and economical production, the greater will be your effort to bring about protection. Under this equalizing principle, the worse the natural conditions, the more extreme will be the height of protection.

No doubt the advocates of the principle will say that it is not to be pushed to such absurd consequences. But where draw the line? We have duties in our present tariff of fifty per cent, of seventy, or one hundred and more, all of which are defended on this ground. Senator Aldrich remarked, in the course of the debates on the tariff act of 1909, that he would cheerfully vote for a duty of three hundred per cent, if it were necessary to equalize conditions for an American producer.[2] If for three hundred per cent, why not for five

[2] "If it costs ten cents to produce a razor in Germany and twenty cents in the United States, it will require one hundred per cent duty to equalize the conditions in the two countries. . . . As far as I am concerned, I shall have no hesitancy in voting for a duty which will equalize conditions. . . . If it was necessary, to equalize the conditions and to give the American producer a fair chance for competition, other things being equal of course, I would vote for three hundred per cent as cheerfully as I would for fifty."—Senator Aldrich, in the *Congressional Record,* May 17, 1909, p. 2182.

hundred or one thousand per cent? Shall we say that the domestic producer whose costs are so high as to require a duty of thirty per cent is to be protected, but not he who has a disadvantage of fifty or a hundred per cent? The only consistent answer is the Aldrich one — give him all he needs for equalization. And the necessary consequence is universal and unlimited protection.

It is for this simple reason that the principle seems to me worthless for settling the tariff problem. In reality, it begs the whole question at issue. That question is, how far shall domestic producers be encouraged to enter on industries in which they are unable to meet foreign competition? The very fact of their being unable to meet it shows that for some reason or other conditions are unfavorable. Domestic costs then are high; domestic producers are under a disadvantage.

The free-trader says that this is *prima facie* an indication that the industry had better not be carried on within the country at all. He says, further, that the greater the disadvantage and the higher the domestic cost, the more probable that it is not now for the community's good, nor ever will be, to induce labor and capital to go into the industry by "equalizing" the conditions. In so reasoning, the free-trader is very unmindful of political and social considerations, or even blind to some offsetting gains of a strictly economic kind. But his opponent, the protectionist, in setting forth the equalizing notion as the "true" principle, does not answer him. This principle assumes at the very outset that any and every sort of domestic production is advantageous, and that there is no problem as to the limits within which we should act in bolstering up industries that cannot stand without legislative aid.

Underlying the ready acceptance of this "true" principle are two widespread beliefs or prejudices, equally unfounded. One has just been alluded to — that the domestic production

of an article is in itself good. The other is that high wages are the result of the tariff, and cannot be kept up without the tariff.

The belief that the production of a thing within the country is in itself advantageous persists with extraordinary vitality. It runs counter to the universal teaching of economists, and on any careful reflection it is absurd. Yet it is maintained — though by implication rather than expressly — in most of the current talk about the effects of duties. The tariff act of 1909, for example, raised some duties on cottons, with the object of causing the manufacture at home of fabrics previously imported. In the debates, the "acquisition" of the new industry was spoken of as manifestly desirable. The mere fact of the industry's being established at home was thought a proof of gain. So, when the duty on tin plates was raised in 1890, the domestic production of the plates was adduced as conclusive proof of the wisdom of the increase. The previous importation of these things was thought of as having been a losing business; the ensuing production at home was supposed to bring so much national profit.

The real question obviously is, *which* of the two ways of securing the goods is the better. To make a thing at home is not to our advantage if we make it at high cost. To import it is not a source of loss when we import the thing more cheaply than we can make it at home. These are the simplest commonplaces. Yet the "true" principle runs directly counter to them. It assumes that the nation gains necessarily by so equalizing conditions that anything and everything shall be made at home.

On no subject is the difference between the economists and the general public, in point of view and in conclusions, more marked than on this of the nature of the gain from domestic and foreign supply. On other current topics the teachings of the economists are listened to with attention and respect. On money and banking, on taxation, on labor matters, on the

regulation of railways and other quasi-monopolistic industries, public opinion is not out of accord with them, and has been markedly influenced by them. But on international trade and the tariff an attitude which seems obviously absurd to the trained student is tenaciously held by an immense number of intelligent legislators and citizens. They repeat and repeat the ancient fallacies which regard imports as ominous and exports as wealth-bringing.

The economists are by no means unanimous on the controversy between protection and free trade. There is hardly one among them who would not admit that there exist valid arguments for protection. But the grounds on which some economists go so far as to think the weight of argument to be in favor of protection, and others confess that there is at least something to be said for it, are very different from the grounds commonly put forward in our everyday tariff literature. This sort of disagreement is unfortunate for them and for the community also. The public men of the dominant party have become almost fanatically intolerant. They dismiss, as "theoretical," propositions which seem to the teachers and writers the simplest of common sense. Clear thinking and cool reasoning on all the great questions of the day are impeded by this disagreement on the very nature of international trade — on the fundamental question whether the domestic production of a given commodity is in itself necessarily advantageous to the country.

The same disagreement appears, though perhaps in less overt manner, on the other belief which gives support to the equalizing principle of protection: namely, that wages in the United States are high because of the protective system, or at least cannot be kept high without it. The equalizing principle, in fact, may be said to be simply a revamped form of the pauper-labor argument. The American employer, it is said, finds himself compelled to pay higher wages than the foreign employer. He is in danger of being undersold by the

cheap product of pauper labor. He cannot hold his own unless the foreigner is handicapped by duties. The belief that tariff duties are necessary to maintain a high level of wages is an article of faith for probably a majority of American citizens. Yet this also is opposed to the universal teaching of economists.

Consider, for a moment, the case of exported articles. They are not higher in price than similar articles in foreign countries. They must be, in the United States, somewhat lower in price — lower by the cost of transportation — or else they could not be sold abroad. Occasionally an article is "dumped," that is, sold abroad at a less price than is got for it at home. But this is exceptional. The immense mass of things we export — raw cotton and the cheaper cotton textiles, bread-stuffs, meat-products, machinery, woodenware, glassware, shoes, and so on — are cheaper, quality for quality, than similar things in foreign countries. Yet they are made with high-priced labor. How can they be sold cheap, when high wages are paid to those who make them? The answer is simple enough. The labor is effective. You can pay high wages and yet sell cheap, if much is turned out by your men.

It is a familiar adage in the business world that an efficient man is cheap at high wages. Yet in its application to larger questions this adage is never thought of. In discussing the tariff and wages, people assume as a matter of course that the employer who pays high wages must therefore sell his goods at a higher price. The fact is that if the labor is well-fed and intelligent, and is applied under good natural conditions and with skillful leadership, the employer can turn out an abundant product (or a product of high quality), sell it cheap, and still pay his laborers well. And the real source and cause of general high wages, says the economist, is precisely in these conditions: efficient labor, good natural resources, skillful industrial leadership. Given these, you will always

have higher wages, and need not fear competition from cheap and inefficient labor.

Further, says the economist, when you try to equalize costs of production everywhere, you induce the employer to turn to industries where labor is *not* efficient. The very fact that costs are high indicates that there is some cause of inefficiency. You divert labor and capital from the industries that are best worth while, diminish the general product, and so diminish the source from which all the wages eventually come. The argument goes back to the position stated a moment ago: domestic production under any and all circumstances is not necessarily good; that domestic production is good which is carried on under advantageous conditions.

I will not enter on some forms of the labor argument that are complicated, and lead to more intricate problems. The great broad facts of the case are, in the eye of the economist, plain. No respectable writer or teacher would say for a moment that high wages are due to the tariff, or that the maintenance of a high range of general wages (observe, we speak of general wages) is dependent on the tariff. The main cause of generous wages is at bottom a very simple one: generous productiveness of industry. This makes possible the combination of money wages that are higher than in other countries with prices that are as low as in other countries or lower. Given the all-round efficiency of industry that leads to this happy combination, and you may dismiss all fear of being undersold and ruined by the competition of pauper labor. Here again the judgment of the well-trained and thoughtful differs irreconcilably with that dominant in the nation's councils.

From all this it might seem to follow that inquiries about relative cost of production, money-rates of wages, equalization of condition, are not worth while at all. They cannot touch the heart of the tariff problem: this really is whether it is

desirable to try to equalize at all. And yet! I believe that such inquiries are well worth while. They will conduce to a better understanding of the tariff situation, and are likely to lead to considerable improvements in legislation. They may even pave the way to something like a settlement of the tariff question.

In two directions the investigation of relative costs of production may be of advantage: as to undue gains in monopolistic or quasi-monopolistic industries; and as to the extent to which there are vested interests which must be respected in a future settlement of the tariff.

The protectionists usually assume that domestic competition will prevent any excessive profits in the protected industries. In most cases they are probably right. In the cotton manufacture, for example, where there is no trust, no combination, no monopoly, high duties are not the cause of permanent high profits. In the debates on the tariff act of 1909, certain insurgent senators among the Republicans protested, and with reason, against some advances in the rates on cotton goods; but they took untenable ground in putting their argument on the basis of monopolies and monopoly profits. It is true that when a new duty on such an article is imposed, those who first undertake the domestic manufacture may make large profits. But competition in due time sets in. If exceptional gains do prove to be permanently maintained, it must be because some mills have better organization and management than others, or shrewder judgment as to the caprices of fashion. So it is in the woolen manufacture (even though here there is much more of combination than in the case of cottons), in the silk manufacture, and so on. The real question in such cases is whether it is worth while to encourage a domestic industry if costs of production are so large that duties of sixty, eighty, one hundred per cent are called for. Most branches of the textile industries need no duties as high as these in order to enable them to hold

their own. Many can hold their own without any duties at all. But certain branches, especially in the finer grades, clamorously ask for extremely high rates; and then their case is suspicious, not because of impending monopoly profits, but because of the presumption that they had better not be established at all.

All the world knows, however, that combination and monopoly, though they are not in possession of the entire field of industry, have secured control of large sections of it; no doubt tempered more or less by potential or actual competition, but still with such degree of success that more than competitive profits are secured. Where this is the case, tariff duties may bolster up the profits, by shutting out at least the foreign competitors. Then the protective system really serves to rob Peter in order to enrich Paul; whereas, under competitive conditions, it only robs Peter in order to sustain Paul in an unsuitable industry. If the duties more than offset Paul's costs of production (assuming these costs to be in fact higher), they give a chance for a monopoly squeeze. Now whether they do so, inquiries on the facts of the particular case may make clear. The vogue of the "true" principle of protection is unquestionably promoted by a widespread feeling that duties are *more* than enough for equalization, and that they enable the trusts to secure more than reasonable profits. The suspicion is doubtless well-founded in many cases; how far so, systematic inquiry alone can bring out.

Again, no rational person, even though he were the most radical free-trader, would propose to abolish at one fell swoop protective duties to which a great industrial system had accommodated itself. We may not like the result, but it is there, and not to be suddenly modified without widespread loss. Moreover, those engaged in the industries may plead with weight that they have entered on their operations with the sanction of the government, nay, with its direct encourage-

ment, and that the government cannot in justice leave them in the lurch. Thus, our Department of Agriculture has been preaching beet sugar for the last fifteen years, urging farmers and manufacturers to undertake it, supplying not only seeds and agricultural instructions, but directions as to manufacturing. In the arid and semi-arid regions of such states as California, Colorado, Utah, beet-growing (with sugar-making) seems to have an independent basis; but in the states of the corn-belt, Michigan, for example, it rests on the unstable prop of the tariff. The Michigan sugar-makers, egged on as they have been by the government, have a claim on the ground of vested interest. We are not free to deal with the sugar duty as we were twenty years ago; nor indeed are we free to deal radically with any of the protective duties needed for the maintenance of established industries.

But the question always arises: How far are vested interests in fact involved? How high must the duties really be in order to enable the *status quo* to be maintained? On this topic I believe there is an enormous amount of exaggeration. Probably the greater part of our existing duties are needlessly high, on the very principle of equalization. This is the case not only with the obviously nominal duties on wheat, corn, oats — articles regularly exported, and as cheap here as abroad — but with those on many manufactured articles, such as most grades of cottons, almost all boots and shoes, furniture and woodenware, iron in crude and manufactured form, glassware, and a host of miscellaneous manufactures.

The dependence of our manufacturing industries on tariff duties, to repeat, is enormously exaggerated. The constant shouting about foreign pauper labor has brought about a state of pusillanimity among the manufacturers themselves. Most of them know virtually nothing about foreign conditions. They are familiar only with their own business and with that which touches their daily routine. Foreign competition has been non-existent for years. What its real pos-

sibilities are, they do not know. But the politicians, and those few shrewder manufacturers who have cleverly formed plans for aid to special industries, have incessantly predicted wholesale ruin unless the tariff system were maintained without the change of a dot. I know of a case in which the superintendent of a textile mill, an Englishman who had had experience both in his native country and here, told an inquirer that goods could be turned out by the mill quite as cheaply in the United States as in England; whereas the owner told the same inquirer on the same day that the mill would have to be shut up within twenty-four hours if the tariff were touched. Like thousands of manufacturers, this owner was in a state of ignorant panic about foreign competition.

A searching inquiry would show, I am convinced, that our present system of extremely high duties could be greatly pruned without any disturbance of vested interests. The direct effect of such a change would be, no doubt, more nominal than real. Except in the case of trust-controlled articles (and there are not so many of these raised in price by the tariff as the free-traders commonly suppose), a reduction of duties on this basis would bring no lowering in prices and no advantage to consumers. It would mean only the placing of a new set of figures on the statute-book. But it would have some important advantages none the less, and very likely some considerable ulterior consequences.

One great gain from such an overhauling of the tariff would be to lessen its importance in the public mind. To the economist nothing is more nauseating than the cry about prosperity and the tariff. From much of the current campaign talk, one would suppose that the country would go to certain ruin if a single duty were reduced by a fraction of a per cent. Manufacturing industries in general are in the main not dependent on protection. This country of ours is certain to be a great manufacturing one under any tariff system.

Still less is our general prosperity dependent on the tariff. Our natural resources, our vigor, industry and intelligence, our training in school and college and shop, the enterprise and judgment of our business leaders — these are the things on which material welfare depends. Great harm has been done by the persistent stress on legislation, and especially on restrictive legislation, as the mainstay of prosperity. Our manufacturers and other producers need to learn to keep cool and to rely on their enterprise and skill.

Further, a readjustment of duties simply on the basis of equalization — that is, on the basis of conserving vested interests and maintaining industries as they are — would lead to a more critical attitude on the tariff question. It would be seen that a great range of industries could get on with duties much moderated or no duties at all. Others would be shown to need high duties in order to maintain themselves. Such differences, resting on the varying disadvantages of the several industries, would hardly fail to raise the question — which sorts of industries are, after all, the better for the country, those whose costs are high, or those whose costs are low? If there are plenty of manufactures which can get on with low duties or none at all, is it worth while to start up others which need high duties? Suppose it to be admitted that we must continue to prop up for an indefinite time those which now need high rates, shall we encourage new ones which demand still higher rates in order to equalize their costs of production?

I am by no means sure that questions of this sort would be coolly asked or would be rationally considered. The protective notions in their cruder form have a most tenacious hold, especially that notion of the inherent advantage of "acquiring" any and every industry at home. Yet a system of duties really adjusted with care and precision on the basis of cost of production might be expected to help, not only in

sharper scrutiny, but in more discriminating judgment on the whole tariff problem.

What has been said in the preceding paragraphs rests on a free-trade basis; that is, it rests on the assumption that it is good for a country, not to produce anything and everything at home, but to allow a process of selection or experiment in determining which among the various possible industries are the best for it.

I would not have the reader infer that I am an unqualified free-trader, or that this view of the tariff problem leads immediately, or even ultimately, to complete abolition of all except revenue duties. The case in favor of free trade has indeed always seemed to me *prima facie* strong; and prolonged investigation and reflection have served to confirm me in this opinion. But it is only a *prima-facie* case. There may be offsetting advantages which rebut the presumption. A consideration of these calls for some very delicate balancing of losses and gains. It would be necessary to consider the young-industries argument, which used to be the mainstay of the protectionist, and now is pooh-poohed by their opponents, but seems to me still to point to some possibilities of ultimate gain. Again, there are political and social arguments as to the avoidance of extremes and of undue fluctuations in industry. Few economists nowadays would say that there is one good tariff policy, and one only, applicable to all countries and all conditions.

But few economists would say a good word for such an exaggerated protectionist policy, one so intolerant of foreign competition and foreign supply, as the United States followed in the McKinley tariff of 1890, in the Dingley tariff of 1897, and in the Payne-Aldrich tariff of 1909. When duties of fifty, eighty, and one hundred per cent come to be looked upon as normal protectionist rates; when ingenious devices

and "jokers" are resorted to in order to bring about such high rates without its being made plain that this is the thing really aimed at and accomplished; when by the log-rolling process the policy comes to be applied indiscriminately to any and every article, without scrutiny of the possibility of ultimate cheapening or the promise of social or political gain — then it is time to call a halt, and to begin a process of thorough overhauling. This is the point of view not only of the teachers and trained students of economics, but, I feel sure, of the immense majority of cool-headed and sensible people in this country.

Adam Smith — an ardent though by no means unqualified free-trader — thought in 1776 that the adoption of a free-trade policy by Great Britain was quite beyond the bounds of possibility. Had Adam Smith lived to see what changes took place in the course of the century following, he would probably have said in 1876 that free trade would never be abandoned by any country which had once adopted it. Who would venture on a prediction now? It is among the possibilities that Great Britain herself will turn again to some sort of restrictive trade policy. I would not undertake to foretell whether free trade will be abandoned in Great Britain, or protection in the United States. But the outlook is certainly for a moderation of extreme protectionist policies. The various nations which have stirred each other to measures of commercial warfare — and the United States has been most aggressively guilty in this regard — seem to be wearying of a game which each can play with effect against the other.

The indications are for some sort of compromise all around; an illogical proceeding, perhaps, but a very human one. In this moderated course of action the United States is likely to join; and all sorts of persons, whatever their opinions (or lack of opinions) as to the goal ultimately to be reached, will think and vote in favor of pruning a protectionist system which has become so rigidly and intolerantly restrictive as ours.

VIII

AN INQUIRY ON THE COSTS OF WOOL AND OF WOOLENS[1]

The Tariff Board Report on Wool and Woolens fills four volumes, 1200 pages in all. It contains a mass of valuable information. Even those who have followed the previous literature on the subject, official and unofficial, cannot fail to find here new and helpful material. Whatever be the serviceability of the report toward settling legislation, its usefulness to the honest-minded inquirer cannot be doubted.

The matter of the report divides itself into two parts, one on wool, the other on the manufactures of wool. The former of these is distinctly more satisfactory than the latter. The passages on wool are well arranged, well put together, well indexed, well summarized. Those on woolens have much more the appearance of being thrown together with some haste, and it is not easy to make out what the results finally come to. The less satisfactory character of the report as regards woolens is probably due to haste in preparation. It was long obvious that the Administration desired to present to Congress a specimen of the kind of work which the Tariff Board was doing. There was pressure to have at least one important report ready early in the session of Congress, and the Board doubtless was called upon to show its hand before it was ready.

In the report on wool, as in all of the inquiries of the

[1] *American Economic Review*, June, 1912. The reader should bear in mind that the Tariff Board whose work is here discussed is that which was established by President Taft in 1910 and was abolished in 1912. It is not the Tariff Commission created by Congress in 1916.

Tariff Board, costs of production in the United States and in foreign countries figure largely. The theory on which the Board was set to work has been that "scientific" tariff revision should rest upon ascertained differences between cost in the United States and in foreign countries. An investigation of this sort, however, in the case of commodities of the extractive group, is beset by difficulties, obvious enough to the economist. Costs vary according to the nature of the sources of supply. Some localities have advantages over others, some produce more cheaply than others. Which cost shall be taken as decisive or representative, the highest or lowest? In the case of wool this difficulty is increased by further complications. Wool is a joint product with mutton, and wool and mutton together are often joint products of general farming. How disentangle a separate cost of wool?

The mode in which the Tariff Board has grappled with the problem is instructive; and it seems to me to have been well chosen. "Cost" of wool is reckoned by first ascertaining the total flock cost — that is, the expenses directly incurred by the farmer for his sheep in the way of food, care, shelter. The Tariff Board has wisely disregarded the land in reckoning this cost. In the statements presented at hearings before congressional committees, interest on the value of the land is usually reckoned, not only with regard to wool but with regard to wheat and other staples, as part of the cost of production of agricultural produce. Whether or not influenced by considerations of economic theory, the Tariff Board has thrown out this item, without stopping to consider niceties about the significance of rent on land. The direct cost alone is considered. From this direct cost there are deducted all receipts from other sources than wool; that is, mainly the mutton receipts. The difference is then taken to represent the separate cost of the wool.[2]

[2] The reader interested in economic theory may compare the procedure with that suggested by Professor Marshall in his "Principles of Economics," bk. V, ch. 6, section 4, note 2 (p. 388, sixth ed.).

The cost of wool thus ascertained shows extraordinary divergences in different parts of the United States. Three great regions are distinguished and for these the following general results are stated:

	Number of sheep	Cost of wool
1. The region of general farming, extending from the Missouri River eastward over almost the whole of the country	10,000,000	*nil*
2. The territory or range region	35,000,000	11 cents
3. Ohio region	5,000,000	19 "

These figures of "cost," as the Board emphasizes, are of a very rough sort, indicating the general situation in the several regions. They are averages. Within each region there are great differences. Even if these be neglected, the general figures indicate how extraordinarily diverse are the conditions in different parts of the country.

In the first region, that of "general farming," the conclusion that the cost of wool is *nil* means simply that the direct expenses of farmers on account of their sheep are met usually by the receipts from mutton. Sheep are kept in small numbers on each farm; their keep costs very little; they are almost always crossbreds — that is, of the breeds yielding good lamb and mutton. Even what the farmer gets from the mutton is usually so much net gain. Certainly what he gets for the wool cannot be said to cost him anything. In other words, in this region, sheep-raising and wool-growing would be maintained irrespective of any duty upon wool. Abolition of the duty would mean, at the most, that even more attention than at present would be given to the mutton-yielding breeds of sheep.

In the territory region, where much the largest part of the wool-growing takes place, the situation is different. Within that region there are again greatly varying conditions. The Tariff Board divides it into three sub-regions: a Southwestern

district, including Texas, Arizona, New Mexico, and the like; a California district; and a Northwestern district, including Idaho, Washington, Oregon, and the rest of the Northwestern states. These three districts, however, can be reduced to two; the southern part of California is similar to the first of them, the northern to the third. In the first the conditions seem to have much similarity to those in Australia. The climate is mild; no winter shelter is needed. The meager precipitation, which imposes an almost insuperable obstacle to cattle raising, presents none so serious to sheep-growing. The sheep are mostly of merino breed, hardy and easily herded. They are kept chiefly for wool. Cost of production is lower here than in any part of the United States, and very likely as low as in competing foreign countries. In the Northwest, on the other hand, the climatic factors influence both the expense of wool-growing and the character of the flocks. More winter shelter is needed and more harvested crops. There is a tendency to cross-breds, and mutton is looked to for a considerable part of the revenue, either directly or by the sale of sheep for fattening in the corn-growing region. Harvested crops are resorted to in considerable degree.

Not less important is the circumstance that wherever settled agriculture is possible, either from sufficient local precipitation or through irrigation, farming treads on the heels of wool-growing. This phenomenon, constant in the economic history of the United States, is now unmistakably to be seen in the West and Northwest. In Texas the number of sheep has declined as the eastern part of the state has been settled by farmers. The same has been the case in those parts of California which have been put under the plow or converted into orchards. It is certain that Washington and Oregon will not long remain important ranching states. Throughout Idaho, Montana, and Wyoming, wherever irrigation or dry farming is possible, the flocks of sheep will pass away. Only in those regions which because of their limited

water supply are necessarily pastoral will ranching maintain itself. And even in these, cattle are likely to be more profitable than sheep. This general tendency is showing itself in a steadily increasing "cost of production" for sheep and wool; and it brings it about that within this region itself there are differences in the facilities and profitableness of sheep-raising as great as those in widely separated parts of the United States.

Finally, in the third and smallest region of all, we find the highest cost and the most peculiar conditions of production. In eastern Ohio and in near-lying parts of Pennsylvania and West Virginia, and in some parts of Michigan, there is a sort of *enclave* in which sheep-raising seems to be carried on with an approach to obstinacy. Industrially of little consequence, it has been politically of surprising influence; for it long contributed more than any other section of the country toward the maintenance of wool duties and so of the general protective system. Here large flocks of merino sheep are kept by Ohio farmers on land that is hilly, easily eroded, and not adaptable to the agricultural methods common in the Mississippi Valley. It is true that in some parts of this region the farmers have turned their attention to mutton breeds of sheep and therein have found profit in the same way as other farmers of the central region. But it is not difficult to read between the lines in the Board's noncommittal pages that there is some stolid persistence in old practices, perhaps also some insuperable difficulty in the way of using the land otherwise.[3] At all events, here we find the

[3] I quote some passages referring to the "Upper Ohio Valley region": "Some farms produce lambs that are sold fat after feeding them a greater or less time in the fall and winter. A flock managed in this way returns usually a good amount from its lamb sales, so much that the charge against wool is often entirely met. On such a farm the wool is not considered the chief source of income. Much as in England it is a side product — more important, proportionally, than in England; yet from the fat lambs comes the greater return. It is rare that sheep

highest cost of wool, and on that basis the greatest need for protection.

Such are the facts stated. What light now do the results of the whole investigation throw on the expediency of maintaining the duty on wool, or on the rate of duty which should be levied, if one is to be maintained? I confess that the situation seems to be in no sensible degree cleared up for the legislator. So far as the general expediency of the duty on wool is concerned, he must still reach his conclusion upon general principles. If he thinks that there is something precious in the domestic wool supply, and something portentous in a considerable increase of imports, he must still be in favor of retaining a considerable duty. If he has any such beliefs as are embodied in the young industries argument — if he thinks a duty should be maintained only if it will lead eventually to supply of the entire domestic consumption by domestic producers, at prices not higher than those in foreign countries — then he must give up once for all any hope of attaining the desired end as regards wool. It is proved to the hilt that the possibility of extending the domestic supply, outside of the region of general farming, is negligible. Sheep

farms managed skillfully on this system do not show some profit. The question may be asked, Why, then, do not all of the sheep breeders of the Ohio Valley and Michigan follow this system? The answer is that on hill farms especially it is not easy to grow the corn necessary to fatten lambs. Then, the owners of many flocks have not yet learned to adapt their systems of agriculture to this practice; they have long been accustomed to looking to wool for their chief profit from sheep-breeding" (p. 548).

"From the foregoing it seems important for the sheep farmers of the hill regions of Ohio, Pennsylvania, and West Virginia to seek wherever possible to produce fat lambs as an effective means of abating their wool costs. There are, however, certain difficulties, some of them serious, in the way. In much of the region in question the plow is of little use. The hillsides are too steep for cultivation. The land readily erodes, and there is never a surplus of corn nor even always a sufficiency of hay. Before growers here can adopt new methods they must buy corn, and this often at high prices, and as they are not accustomed to speculation, this would not appeal to them" (p. 550).

raising in large herds is certain to become less rather than greater. The retention or increase of the duty may conceivably aid in maintaining the supply at its present figure, but it can bring about no considerable increase. All this, however, was known before. The report simply confirms the conclusion already reached by well-informed inquiries.[4]

For myself, everything in the report strengthens the conviction which I have long held and declared, that there is no good ground for maintaining a duty upon wool. But that conclusion rests upon general reasoning with regard to the working of international trade and of protective duties, which may indeed find illustration in the working of our wool duties, but which is neither reached nor confirmed by all such labored investigation. The strength of the wool duty lies not in economic reasoning, but in the inevitable wish of every industry in every part of the country to get its share of what seem to be the benefits of protection. It is absurd for the wheat-growers to protest against the abolition of a wheat duty which is of no consequence to them. But all the current talk about protection makes them think that they are losing their "share" of the benefits. Even more strongly the wool-growers feel that they are entitled to their "share" of the benefits of protection. Under such circumstances the investigation of the Tariff Board supplies ammunition for either party, but will not enable either to rout the other.

Again, supposing that there is to be a duty on wool, what rate shall be imposed? Shall it be a rate sufficient to protect the obstinate grower of merino wool, or the grower of the Southwest, or the waning pastoral industry of the Northwest? I know no ground upon which one or the other of these costs of production should be accepted as decisive. Here, as elsewhere, if you give a duty high enough to equalize cost of production for the producer having greatest ex-

[4] It has been proved, for example, beyond question in the pages of Professor Wright's "Wool Growing and the Tariff."

pense, you give more than enough for the one who has less expense. If you give a duty sufficient only for the producer whose expense is least, you reach a free wool basis, and at all events sacrifice some of the producers less advantageously situated.

There remains one subject, however, on which the Board's report states less uncertain conclusions — the mode in which a duty upon wool, if levied at all, should be assessed. The Board recommends unqualifiedly that any duty should be reckoned hereafter upon the scoured content of the wool. As every one who has dealt with the subject knows, raw wool varies immensely as regards the impurities which it contains. Some wool loses three-fourths or four-fifths of its weight in scouring and preparation for manufacture. Other wool loses but one-fifth or one-fourth of its weight. The present specific duty (that of the tariff of 1909) of eleven cents a pound upon raw wool necessarily bears more heavily on that which shrinks most in scouring and loses most in manufacture; and it has proved virtually prohibitive of the importation of some grades of wool, especially those which come from the Argentine region. This anomaly has long been recognized; the only question has been on the best mode of readjustment. One remedy is to impose the duty upon an ad valorem basis; the other is to impose it according to the quantity of scoured wool contained in the fleece. Space lacks for entering on a detailed consideration of the merits of these propositions. The scoured basis seems to be not impossible of reasonably accurate application, but is open to the objection that, like any specific duty, it bears with greater relative weight on coarse wools than on fine wools. The ad valorem method avoids this difficulty, but is open to objections of its own. Undervaluation is always tempted and is always hard to control; and a duty by value tends to exaggerate the fluctuations in domestic market prices. Yet it is to be said that both these difficulties become less in proportion as the ad valorem rate

is lower; they would be serious with a rate as high as 50 per cent (roughly the equivalent of the present duty), but negligible with one of 10 per cent. The Tariff Board's recommendation of the second method — a duty on scoured basis — bears every evidence of having been reached after careful and unbiased consideration. Either method would be better than the present. But there is only one plan which gets rid of the objections — the good and simple plan of admitting wool free once for all.

With regard to woolens the situation is in one important respect essentially different. Here there would seem to be no inherent difficulty in making comparisons of cost production. Manufacturing industries are not necessarily carried on under conditions of varying cost. Is it not possible to ascertain with reasonable accuracy the difference between cost of production of woolens within the country and without the country?

To this suggestion it has often been answered that we find in manufactures differences of cost no less great than in the extractive industries. Cost is *not* uniform within a country, any more than it is uniform between countries. Some establishments in the United States produce more cheaply than others; we encounter here, as with regard to wool, the difficulty of ascertaining which among varying costs of production is to be decisive in regulating tariff rates. The difficulty seems to me not insuperable; yet the method by which it might be most successfully met has not been followed, at least with any consistency, in the Tariff Board's report. To remove it, resort must be made to something like Professor Marshall's device of the "representative firm." Though there be differences in facilities between different establishments in the United States, it is not unreasonable to disregard those managed with unusual ability and also those negligible because backward or still in the early and experimen-

tal stage. The device calls, no doubt, for some artificialization of the data: the construction of an imaginary establishment, not perhaps corresponding precisely to any specific business, yet fairly to be regarded as indicative of the normal conditions of the trade. The Tariff Board, however, has not chosen to adopt any method of this kind. Its pages are full of detailed statements of cost, chiefly for establishments in the United States, but for some establishments in European countries also. Yet these inquiries seem never to be brought to a form in which direct and complete comparison is possible, or in which clear-cut results are stated. Possibly this may be due to the fact, already referred to, that the publication of the Board's report was called for before its work had been carried to the final stages. Possibly it may be due to a hesitancy on the Board's part in presenting anything but specific, concrete facts. No doubt there would have been severe criticism of hypothetical or generalized figures. No doubt, also, such figures could indicate only the general trend of the differences between countries. But approximate solutions on matters of this kind are the only ones obtainable. I cannot but believe that legislation on the lines expected from the Tariff Board's report would have been facilitated by statements which, though representative and therefore approximate, were in simple and summary form.

At all events the legislator who is endeavoring to apply the cost of production theory to the revision of the duties on woolens will find it necessary to do much digging of his own into the voluminous pages of the Tariff Board's report. He will find abundant proof that the duties as they stand now are not fixed on the basis of differences in cost of production with any approach to accuracy. But just what duties would conform to these differences, he will not find it easy to make out.

On one important topic, however, a perfectly clear result is reached. It is established beyond question that the compen-

sating system is completely out of gear.[5] In this result I take some personal satisfaction. I have maintained for years that it has been incorrect and in need of complete overhauling. Persons like myself, when making statements of this sort, have been dubbed theorists, ignorant of the actual working of the system. The system itself has been lauded as perfect by those who may be presumed to be most fully conversant with it. The Board's report, however, makes it clear that the compensating duties much more than compensate. Those who have maintained that, in the guise of compensation for the wool duty, the rates on woolens have been higher than they purported to be, find full support. Those who have endorsed the compensating system as it stands and have protested against even the slightest change in it, surely have followed a mistaken policy. It is inevitable that suspicion should attach to the utterances of persons who have persistently contended that things were true which are now proved not to be true. No doubt the fear of the wool-growers and manufacturers that even the slightest change in Schedule K might precipitate the complete collapse of the system, explains their insistence that it was without flaw. None the less, in view of the present unanswerable demonstration that the system needs thorough overhauling, their attitude must be judged to have been impolitic.

On some other subjects also the Tariff Board reaches conclusions that are clear-cut. It establishes the fact that at least in some branches of woolen manufacturing, efficiency

[5] That is, the system followed in almost all the tariff acts enacted since 1861, providing for two distinct duties on woolen goods: first, a "compensating" duty, specific in form, designed merely to offset the effects of the duty on wool in causing the manufacturer to pay higher prices for this raw material; and second, an ad valorem duty, which alone was supposed to yield protection. In the tariff acts of 1894 and 1913 there was of course no compensating (specific) duty, since these acts admitted wool free. I have discussed in detail the history and working of the compensating system in my book on *Some Aspects of the Tariff Question*, chapter xx.

is low and cost of production is high in the American mills. Possibly the deficiencies of the American establishments are exaggerated. As one reads these parts of the document, a suspicion arises of an endeavor to make the case strong in favor of the maintenance of high duties. An obvious and sometimes amusing consequence of the protectionist doctrine about cost of production is that a domestic producer is thought to be entitled to higher protection according as his operations are conducted to greatest disadvantage. If his machinery is not of the best, or his operatives are clumsy, or his mill badly located, his cost of production of course becomes high; and on that ground he is entitled to ask for higher duties. There are repeated passages in the report dealing with the disadvantages of the American woolen manufacturer because of his more expensive machinery or his less efficient labor supply. I do not recall a passage in which attention was called to any advantages. Possibly there are none — not a solitary point of superiority; possibly the American manufacturer operates at higher expense in every direction. Yet, to repeat, one is led to suspect that his difficulties are exaggerated, or that he has himself exaggerated them in his dealings with the Tariff Board, in order to supply arguments for the maintenance of existing duties.

Certain it is that the description is one which puts weapons in the hands of those who scoff at the cost-of-production principle. It is repeatedly stated, for example, that the working force in the American mills is ineffective. Operatives in foreign countries are said to be more intelligent, better trained, more steady at their work. The newly arrived immigrants who throng the American mills are declared to be poor factory hands. The question may fairly be asked, Why, then, induce them to enter this occupation? Is it to the country's advantage that an Italian or a Greek should be brought over here to work for us at eight or ten dollars a week, when a German or a Frenchman is willing to do the

same work for us in his native country at five or six dollars? Or to put the same sort of question in another form, Would *all* wages in the United States be higher, and would this really be a prosperous country, if our manufacturing establishments and our agriculture throughout were carried on by ignorant and inefficient workmen, equipped with tools and machines no better than those of foreign countries?

So far as machinery is concerned, the extent to which the American worsted manufacturers are dependent upon imported machinery is surprising. Continued resort to foreign machinery always raises a suspicion of inferiority in technical methods. Machinery is almost sure to be installed better and operated better in the country where it is made. A country which depends upon imported appliances thereby confesses to not being in the van of industrial progress. Such is the case with the European countries when they import American shoemaking machinery. Such is the case with continental Europe when it imports English machinery for spinning fine cottons. Such seems to be the case in the worsted mills in the United States with regard to the worsted processes. The report states that in our worsted mills 80 per cent of the machinery used for the processes from scouring to the finished yarn (not goods), is imported. The figures are even more striking with some particular kinds of machinery. The so-called French combs (the continental system) are imported without a single exception; so are the worsted spinning machines and some of the drawing frames. Of the Bradford frames 90 per cent are imported. There is a striking difference between these figures and those for other kinds of machinery. Of the looms, over three-fourths are of domestic make, not of foreign make. It is an interesting feature of industrial development in the United States that weaving machinery has always been made chiefly by American machine builders, and apparently has been worked by the textile manufacturers themselves to better advantage. In

all the textile industries — cottons and silks even more strikingly than woolens — looms are chiefly of American make; and they are at least as good as foreign looms, often better. Practically all the carding machines used in the wool manufacture are also domestic; so are the spinning machines used for carded wool. To repeat, it is in the characteristic branches of the worsted industry as distinguished from the woolen industry, that the dependence upon foreign machinery is most striking; and most is also said of the inferiority of the operatives in the worsted mills.

Precisely the same question of principle presents itself here as with regard to the cost of production of wool. Are disadvantages of the American manufacturer a reason for supporting him with high duties, or are they a reason for regretting that he has been supported by duties at all? The answer cannot be given by the most labored investigation. It raises a fundamental question about which the legislator has to make up his mind by reasoning which the data of the Tariff Board may illustrate, but on which they can prove nothing. That question is the fundamental one between protection and free trade. But what immediately concerns the country is the much simpler controversy between more protection and less; between the present tariff (that of 1909) with all its extremes and a pruned and moderated system. Even protectionists admit that duties should not be *more* than suffices to offset differences in cost; even free-traders admit that regard must be had to the vested interests of those who have been encouraged to embark in industries that labor under disadvantages. Hence it is not inconsistent to admit the value of the Tariff Board's work, even though rejecting the principle of "scientific" revision which led to the Board's establishment. Possibly this report might have promoted revision with better effect if more time had been allowed for preparation; perhaps also if more courage had been shown in summarizing and emphasizing the results. But none the less it does promote a much needed readjustment.

IX

HOW TARIFFS SHOULD NOT BE MADE [1]

In the course of inquiries on the legislative history of the Tariff Act of 1909, I encountered some episodes characteristic of the tariff-making methods which have long been followed in the United States. These episodes will be described in the present paper. The changes in duty which resulted were not of great consequence. Most of them affected articles that are petty in comparison with the important and much debated articles. But the cases were typical and instructive. Concrete examples show better than any general statement what has been our practice in the past, and what are the reasons for substituting a procedure more open, more deliberate, more closely scanned.

During the session of 1908–09 the committees of the House and Senate followed different policies in preparing the tariff bills for the respective legislative bodies. The House committee on Ways and Means held many hearings and printed every document submitted to it. The Senate committee of Finance held no hearings and published nothing. No doubt the hearings before the House committee were often unprofitable, and usually were extremely wearisome to the committee members. They gave occasion, too, for much political fencing. None the less, a great mass of material useful for understanding the tariff situation was submitted, and was printed in the eight bulky volumes of *Hearings;* a set of documents which, it may be added, was indexed and arranged with unusual care. At all events the House committee proceeded openly. Just what happened in the Senate committee

[1] *American Economic Review,* March, 1911.

nobody knows. But it is an open secret that individual members were approached by influential persons interested in the tariff; that a mass of typewritten matter was submitted; and that there was expectation of considerable amendment at the hands of Senate leaders. The main difference between the procedure of the two committees — publicity in the one case, non-publicity in the other — should be borne in mind when reading what follows.

The first episode to which I shall call attention is the change in the duty on structural steel. In the preceding tariff acts (1890, 1894, and 1897) the general trend had been toward a reduction of the duties on iron and steel. The process of reduction was continued in 1909 for most iron and steel products — for iron ore, pig iron, crude steel, steel rails. In the bill as reported by the House committee and as passed by the House, the duty on structural steel had been lowered like the rest. In 1897 it had been 5/10c. per pound; the House bill proposed 3/10c. per pound. In the bill as reported by the Senate committee the proposed duty was 4/10c. per pound. But there was also a change of phraseology. That change is indicated by the qualifying clause italicized below, which was inserted by the Senate committee.

"Beams, girders, joists, angles, channels, car-truck channels, T T columns and posts or parts of sections of columns and posts, deck and bulb beams, and building forms, together with all other structural shapes of iron or steel, *not assembled, or manufactured, or advanced beyond hammering, rolling, or casting.*"

In the act as passed the duty was finally split, being fixed at 3/10c. per pound on structural steel valued up to 9/10c., and 4/10c. per pound valued at over 9/10c. The important change, however, was not in the figures, but in the insertion of the italicized clause.

The effect of the italicized clause does not appear upon the surface. No special provision was made anywhere in the act for structural steel that *is* "assembled or manufactured or advanced." When the change first came to my attention, I hunted through the measure to find what was to be the duty on fabricated structural steel. (Fabricated is the trade name for structural steel that is assembled or manufactured or advanced.) Apparently it would have to come under the drag-net clause, "manufactures of iron and steel not otherwise provided for." An inquiry addressed to Treasury officials immediately after the passage of the act brought a somewhat hesitating response, to the effect that it was supposed the fabricated steel would in fact be dutiable under that clause, at 45 per cent ad valorem. This was the outcome — unquestionably had in view when the qualifying clause was inserted. The duty has not been lowered, but raised. The general policy followed in the act with regard to iron and steel manufactures had in this case been reversed.

During the hearings before the House committee no one advocated an increase in the duty on structural steel. The steel manufacturers in their general arguments before the committee expressed themselves, though not with great insistence, against reductions of duty; but they proposed no advance. Only one statement, to be noted presently, was made with specific reference to structural steel, and that was in favor of a reduction. There is not the slightest indication of what happened in the Senate committee, or what reasons were advanced in favor of the substantial increase in duty which was there provided for.[2]

Having satisfied myself by inquiry sent to the Treasury officials that the duty had in fact gone up, I endeavored to ascertain what the change meant. But letters addressed to

[2] The Senate committee's amendment was accepted in the Senate itself without explanation or debate. *Congressional Record*, April 22, 1909, p. 1468.

various persons in the trade brought vague and sometimes contradictory answers.[3] One of them, engaged in the manufacture of fabricated structural steel, stated that the importation of fabricated shapes was unlikely under any circumstances, except possibly from Canada. The European makers, he said, were not used to our engineering designs, and would not be likely to undertake orders for the United States. But another, also engaged in the manufacture, said that in times past there had been a considerable importation of fabricated steel, and that fabricated shapes alone were likely to be imported. The customs statistics showed that in some previous years there had been considerable importations; and, if the second statement was accurate, the shapes imported were in the fabricated class. Still another informant, a building contractor, informed me that fabricated shapes could be made anywhere to design and could be carried to any desired spot, whether New York, Texas, South Africa, or India; they could be put together without difficulty by the engineers on the spot. And still another stated that, although there was not in ordinary times much likelihood of importation of either fabricated or unfabricated shapes on our eastern seaboard, yet there was such a possibility at occasional times of unusually heavy demand; and that even under normal conditions cheap ocean rates made possible an importation from Europe to such places as Galveston and Puget Sound. And finally one of my acquaintances, much experienced in this sort of business, stated his impression that the rearranged duty was in some way connected with a "deal" between the United States Steel Corporation and the German *Stahlwerksverband,* by which a division of the market had been arranged. It is

[3] I am not at liberty to give the names of my correspondents. The same is the case with regard to most of those with whom I communicated regarding the other changes of duty mentioned elsewhere in the present article. But I am able to vouch for the good faith of the persons who have given information, and am confident that their statements of facts are accurate.

conceivable that the higher duty might clinch such a compact, by preventing the foreigners once for all from trespassing on the Steel Corporation's domestic preserve. It is conceivable also that here is an explanation of the failure of importers to protest against the advance. The change, being proposed in the Senate bill, which was printed and widely distributed, could not fail to have come to the notice of persons interested; yet no opposition seems to have been made. I was referred by a trade journal to a New York dealer who was said to be a representative of the German steel exporters and so to be in a position to throw light on the situation. But an inquiry addressed to this person brought a courteous answer in very vague terms, telling only of things easily ascertained by any one conversant with the Custom House statistics, and giving no significant information whatever.

This was the end of my inquiries. Nothing definite was brought to light concerning the origin and the effect of this increase of duty. I suspect that, though in ordinary times there is no likelihood of an importation of fabricated steel, there is a chance of importation during rush times and at outlying districts; that the competition is not welcome to the domestic makers and particularly the Steel Corporation; and that the change in duty was quietly arranged in order to prevent this sporadic competition. A compact between the Steel Corporation and its foreign potential competitor is entirely within the bounds of possibility. It may be that a little light is shed on the situation by the single statement made on this subject before the House committee and referred to a moment ago. A domestic purchaser of structural steel thus presented the case to the House committee:[4]

"It is a well-known fact to all in the manufacturing of finished lines of the iron and steel business that outside of the United States Steel Corporation, and perhaps three or four others, there are no makers of the class of materials we use, excepting the item

[4] *Hearings before the Committee on Ways and Means*, II., 1526.

of plates. With but few exceptions all of the makers of this class of raw material do fabricating, i. e., putting it together in the shape of bridges, girders, columns, and what is designated generally as fabricated work, although perhaps their aggregate tonnage in the fabricating line itself would not amount to more than one-third of the total fabricating output of the country. At present, however, with the high prices they are enabled to maintain on the material before it is fabricated, these makers are given undue advantage over those fabricators who are not makers of the material, but to whom they sell, and can make much lower prices on fabricated work, and are doing so to-day and virtually controlling the price on this class of work, the reason being that the tariff, now so excessive, enables them to make a good profit on the material as first rolled into the shapes mentioned above, so that they can afford, if necessary, virtually to throw in the fabricating for little or nothing."

The next case was of an article much less important, but again a characteristic case. A change was made in the duty on cotton gloves. Under the Dingley Act (of 1897) these had come in at a duty of 45 per cent — the dragnet clause on manufactures of cotton n. o. p.[5] The House bill had left the duty unchanged. The bill as reported by the Senate committee to the Senate still left the duty unchanged. But in the course of action by the Senate Committee of the Whole, a new clause was inserted; the cheaper cotton gloves were to be dutiable not at the simple ad valorem rate, but at a compound rate, partly specific and partly ad valorem. In the act as passed, the Senate provision was substantially maintained. Gloves having a value of $6.00 or less a dozen pairs, were made to pay a duty of fifty cents per dozen plus 40 per cent ad valorem. If valued at over $6.00 a dozen, the duty remained ad valorem without any supplement of specific duty, but the rate went up to 50 per cent.

It is obvious that a change made through action by the Senate itself attracts less attention than one made by its Committee on Finance. The bill as prepared by the Com-

[5] "Not otherwise provided for."

mittee is printed, and is sent to every senator and indeed to every one interested. Changes there proposed readily attract the attention of the persons concerned. But changes made by the Senate itself are carried out in the wearisome routine of the amendments, with little attention and usually with no debate. Once embodied in the bill as passed by the Senate, they can be changed only in Conference Committee — always a difficult task.

On the surface there is nothing to show what will be the effect of a change of this sort. It may or may not be of substantial importance, the effect depending on the character and value of the goods used. On cheap gloves, the insertion of the additional specific duty would bring a great advance. Thus on gloves valued at one dollar a dozen the old rate was 45 per cent, that is, forty-five cents; the new rate was fifty cents plus 40 per cent, or ninety cents in all. The duty was doubled, and became 90 per cent on the value. On dearer gloves, the specific duty would be proportionally less weighty.

In fact, it was the cheaper grade of gloves which proved to be affected. Inquiry among persons conversant with the trade showed that the cheaper gloves worth at wholesale one dollar a dozen or thereabouts, were imported largely from Germany, and used for the most part by policemen, marines, and militia, for dress occasions; bought principally by public officials. The duty was inserted in the Senate through the activity of a person well known in the trade. He had got the ear of a New England senator, a member of the Finance Committee, who had secured for his protégé the increase of duty. An importer wrote me as follows:

"For years we have bought men's and boys' cheap cotton gloves wholesale from \$1.12½ to \$1.25, from Germany, but on account of the extra special duty of 50c. per dozen, it has been absolutely impossible to continue buying these goods abroad. . . . We have been obliged to place our orders with Mr. ——. He is a member of the firm of ——, who are making a very cheap domestic glove and

reaping the direct benefits of the tariff which Mr. —— was instrumental in placing on these goods. He was in our store last Saturday, soliciting more business and states that he has received some very large contracts from the U. S. Army. One of his orders for this spring was for over 200,000 pairs. So that not only the public but the U. S. government is contributing to his support through the new tariff."

One of the details deserves notice. In the bill as passed by the Senate and as sent to the Conference Committee, the new rates had been made applicable to "cotton gloves" in general. But private protests to the Senator in charge did secure a modification. The language was amended, in conference, by the insertion of the words "men's and boys'." Hence gloves for women in the end came in at the old rate of 45 per cent. The Senator was able to allow this concession since it did not affect the plans of his protégé.

Now there may be good grounds of public policy for making sure that men's white cotton gloves are made at home and not imported. It may be thought humiliating for this great country that our soldiers should wear on dress occasions cheap cotton gloves made by cheap German labor; it may even be thought that their martial spirit would be enfeebled. For myself, I am able to face the possibility without a shock to my feelings of patriotism. But it seems tolerably clear that the moving force in bringing about the new duty was not the semi-military consideration, but pressure from the interested Mr. ——. If changes in duty such as this are to be made, should they not be deliberately reported and publicly considered? [6]

The third case is that of nippers and pliers. These also had formerly been subject to a dragnet duty, as manufactures of iron and steel, at 45 per cent. The bill, as it came

[6] The amendment for the increase of this duty was offered at an evening session, as coming from the Finance Committee, and was accepted after a very few words of debate. *Congressional Record*, June 7, 1909, pp. 2914–2915.

from the House Committee on Ways and Means and as passed by the House, made no change. As submitted to the Senate by the Senate Finance Committee, it still proposed no change. But in the course of action by the Senate itself a considerable rearrangement was made. Again there was substituted a compound duty, partly specific and partly ad valorem. Nippers and pliers were to be subject to a duty of ten cents per pound plus 40 per cent. In the act as passed the Senate amendment was virtually incorporated: the duty became eight cents per pound plus 40 per cent.

Once more I made inquiries of persons in the trade, and was informed that the duty was put in at the request of a Utica manufacturing concern. That concern had presented a statement to the House committee, which was duly printed in the *Hearings;* [7] but its request for an increase of duty was not granted in the House bill. In the Senate a well-known official, not a senator, but high in the administrative hierarchy, stood sponsor for the change. The persons who protested at the last minute against the increase of duty were informed that it really was of little consequence what they might say or present. So long as this statesman was insistent in urging the increased duty, it would remain. And remain it did. I was shown copies of some typewritten statements presented by the Utica concern to the Senate Finance Committee. They were obviously of the sort that are prepared *pro forma;* a medley of crude figures about cost of production, exaggerated statements about the dreadful low wages in Germany, and the like, which would not stand a moment's searching analysis; such stuff as is familiar in statements made before tariff committees. All this obviously was, to repeat, *pro forma.* The moving impulse towards the higher duty was the influence of the friendly statesman, and figures and arguments for the duty had as little real influence as figures and arguments against.

[7] *Hearings,* III, 2782.

Now, as to the effect. Like all compound duties (partly specific and partly ad valorem), it bore most heavily on the cheaper classes of goods. On small nippers and pliers, light in weight, the specific duty of eight cents per pound was insignificant; these continued to be imported. The larger sizes, used for wire fencing and the like, were subject to a much higher duty, and the importation of these declined. The domestic manufacturers took a larger proportion of the business. My chief informant stated, however, that the Utica concern, originally the party mainly interested, soon found competition from other manufacturers, and that the business was distributed among various domestic producers.[8] He wrote also:

> "The Utica concern is very progressive and aggressive and I believe that even if no change had been made in the schedule they would nevertheless have continued to get more and more of the trade in pliers and nippers, thereby reducing the sale of imported goods. . . . The increase in the duty has of course helped them very materially, but my opinion is that in the long run they would have accomplished the same purpose, although possibly with less profit."

Somewhat different was another case, that of razors. Here there was public presentation of petitions to the House committee; and some advances of duty were proposed in the House bill. In the Senate a still further increase of duty was proposed, and the Senate rates in the main were enacted. The course of events is indicated in the following tabulated statement, which also indicates how complex was the system of rates. As in many other of the schedules that reached very high rates, there was a double complication. Goods were classed according to value, the duty shifting abruptly

[8] In the statement submitted by the Utica Company to the House Committee, it is said (*Hearings*, 2782): "We are the only plant in the country making no other product except nippers and pliers." A list is given of other firms "who make pliers as a side line."

as a given point of value (say $1.50 a dozen for razors) was reached. Further, the duty was compound — so much per dozen and in addition an ad valorem rate. It will be ob-

DUTIES ON RAZORS 1897–1909

<table>
<tr><th rowspan="2">Act of 1897</th><th colspan="2">Duties proposed in 1909</th><th rowspan="2">Act of 1909</th></tr>
<tr><th>House bill</th><th>Senate bill</th></tr>
<tr><td rowspan="2">Value up to $1.50 doz. duty 50c. dozen plus 15%.</td><td rowspan="2">Value up to $1.50 doz. duty 50c. dozen plus 30%.</td><td>Value under $1.00 doz. duty 45%.</td><td>Value under $1.00 doz. duty 35%.</td></tr>
<tr><td>Value $1.00 @ $1.50 doz. duty 6c. each plus 40%.</td><td>Value $1.00 @ $1.50 doz. duty 5c. each plus 35%.</td></tr>
<tr><td rowspan="2">Value $1.50 @ $3.00 duty $1.00 dozen plus 15%.</td><td rowspan="2">Value $1.50 @ $3.00 duty $1.00 dozen plus 30%.</td><td rowspan="2">Value $1.50 @ $2.00 doz. duty 10c. each plus 40%.</td><td>Value $1.50 @ $2.00 doz. duty 10c. each plus 35%.</td></tr>
<tr><td>Value $2.00 @ $3.00 doz. duty 12c. each plus 35%.</td></tr>
<tr><td>Value over $3.00 duty $1.75 dozen plus 20%.</td><td>Value over $3.00 duty $1.75 dozen plus 30%.</td><td>Value over $2.00 duty 12c. each plus 50%.</td><td>Value over $3.00 doz. duty 15c. each plus 35%.</td></tr>
</table>

served that the Senate changed the House figures in such manner as to disguise somewhat the increase of duty. The specific rate on the cheapest razors had been in the House bill 50c. a dozen. The Senate made it 6c. *each,* or 72c. a dozen. On the medium grade razors the House specific rate had been $1.00 a dozen; the Senate made it 10c. *each,* or $1.20 a dozen. On the highest class of razors the House specific rate had been $1.75 a dozen; the act finally made it 15c. *each,* or $1.80 a dozen. In the act as passed the Senate rates were in the main retained, but with the ad valorem duty fixed in all cases at 35 per cent. The reader will see for himself how the specific duties were rearranged in the various stages of the bill. The net outcome was a very substantial increase.

In this case there was not a little discussion. As already

mentioned, the request for a higher duty was presented to the House committee and duly recorded.[9] In the Senate there was an active debate. It was to be expected, and gives no occasion for special criticism, that those who advocated an increase should put the case on the unqualified protectionist grounds. But there were some curious misstatements and misconceptions. The reader who searches in the columns of the *Congressional Record* for items regarding the economic development of the United States will find here accounts of astounding industrial reverses.[10] It would appear that a decade ago there were sixty or seventy razor factories in the United States, and that this flourishing industry had been virtually wiped out by foreign competition; the number of factories had been reduced to five! But I learn from private sources that the cataclysm was not really so violent. Some of the domestic manufacturers, in conversation with a senator active in the debate on this subject had informed him that a decade ago there were "six or seven" razor factories in the United States, and that the number had fallen to five! The distinguished senator had understood them to say "sixty-seven," and had so stated on the floor of the Senate.[11] Having made the statement in public, he did not wish to modify it in so sweeping a way as would have been necessary to reduce sixty-seven to six or seven. Accordingly the statement remained, was repeated by other senators, and is permanently recorded in the files of the *Congressional Record.* It may happen that in coming centuries some research student of economic history will turn to these pages as "original" sources of information and will find here unmistakable contemporary testimony of the extraordinary mutations of industry in the United States at the beginning of the twentieth century.

[9] *Hearings,* 2161.

[10] The debate is recorded in the *Congressional Record,* Senate Proceedings, May 15, 17, 18, 1909.

[11] *Congressional Record,* 2165, 2180, 2221.

In its strictly economic aspect, the razor situation is in many respects curious. Some sorts of razors we export — the world-known safeties. It is obvious that, in order to export, we must be able to produce them more cheaply than can foreigners. Other sorts of razors, especially the finer grades of "old-style" razors, we import in the face of high duties. Evidently the old-style razors are produced more cheaply in foreign countries. Most of them had come from England in earlier days; but of late England has been displaced by Germany. It was the dreadful Germans and their deadly cheap wages that were chiefly referred to in the Senate debates.

These cross-currents in the importations and exportations of razors are in line with similar cross-currents as to other sorts of hardware. In general, we export rather than import finished iron and steel goods. We export builders' hardware (hinges, locks, door knobs), machinery and machine tools, locomotives, agricultural implements, and the like. On the other hand, we import many pocket-knives (though in recent years more and more pocket-knives, especially of medium grades, have been manufactured in this country), and a miscellaneous assortment of anchors, chains, tools, machines. The explanation of these apparently anomalous juxtapositions of imports and exports, is that things made by machinery are likely to be made in this country and even to be exported, whereas those made by artisan hand labor are likely to be imported. When it comes to turning out by machinery, on a large scale, great quantities of goods of a standard pattern, we need not fear foreign rivals. For this sort of thing, we have, in the language of the economists, a comparative advantage. Notwithstanding higher wages, we can turn out the product as cheaply as the European rival, even more cheaply. But when it comes to articles made by hand labor, the European who gets his labor at a cheaper rate can undersell us.

This sort of reasoning had seemed applicable in explanation

of the continued importation of old-style razors. I still believe that in general the explanation is a good one. It accounts in the main for these peculiarities in our international trade; it explains why some articles are imported, and others, apparently like them, are not imported, and even are exported. But on inquiry of persons engaged both in the importation and in the manufacture of razors, I find that the facts do not fit into the reasoning, so far as this particular article is concerned. It appears that in former times razors came chiefly from England. There they were made by skilled artisans, and in the main by hand labor. The Sheffield grinder put the edge on each individual blade by hand, on varying sizes of small stones. But of late razors have come more and more from Germany, and my informant writes as follows:

> In this particular industry the Germans have decidedly taken a leaf out of our book. While we have been struggling along, trying to make razors under the old English methods (with a few — but very few — modern appliances), they have gone ahead and comparatively revolutionized the methods; introduced new ways for forging the blades, and above all things, invented and put into satisfactory operation grinding machines which have enabled them not only to manufacture razors at a very low cost of production, but to produce a quality and uniformity of goods with which we simply cannot compete.

It would seem that the Americans for once have been backward. Apparently what the domestic producers of razors really need is not higher duties but greater enterprise and skill. A demand for extreme duties is always suspicious. In this case, as in so many others on our present tariff list, the combination of specific and ad valorem rates conceals, and at the same time achieves, duties of from 75 to 100 per cent. Where the domestic producers ask for so great a handicap on their foreign competitors, the presumption is

against them. Either they are trying to do work for which our resources and our ways are not fitted, or else (as seems here to be the case) they are not abreast of progress in their own industry.

Returning now to such cases as were first considered — structural steel, cotton gloves, nippers and pliers — we have two questions to consider. The first relates to the expediency of the advances in duty; the second to the methods by which the advances were brought about.

On the first question, the answer must turn chiefly on one's opinions regarding the advantages or disadvantages of protective duties. The convinced protectionist will believe that the domestic production of these several articles is desirable in itself. Whatever duties are necessary in order to "acquire" a new industry are justified.

And on the question of legislative methods also, one's attitude toward the fundamental question affects the answer. The protectionist will be likely to say: this is simply the way of the world, or at least the way of the United States. Our legislative methods are in every direction unsystematic and irresponsible. Tariff bills are inevitably dealt with as are river and harbor bills and general appropriation bills. The only way in which a desired result can be brought about has been through the influence of individual legislators and in the traditional ways. We cannot escape log rolling, private interviews with influential politicians, settlement of details in quiet committee meetings.

The opponent of protection, on the other hand, will smell corruption. Probably he is mistaken in this score. The legislators have a pecuniary stake in the rarest of cases. The only sort of "corruption" that plays any considerable part is that of contributions to party chests; and the persons who make such contributions, as well as those who receive

them, may maintain in good faith that the funds are used in the promotion of a policy believed to be sound not only by themselves but by the majority of the voters.

None the less, and quite apart from any charges of corruption, there seems now to be a conviction that our legislative methods should be changed so far as the tariff is concerned. Whatever may have been the methods inevitable in the past, a more open and deliberate procedure should be followed in the future. It may be a question how far the reaction against protectionism which seemed to show itself in the elections which were held after the passage of the tariff act of 1909, stands for a permanent change in the public's attitude. Very possibly it is only a blind revolt, holding the party in power responsible for high prices, depression in business, and all other things unwelcome. But there is a general belief that the country should know more about the details of tariff legislation, and should know about them in advance. If increases of duty are to be made, let them be made openly, and let the reasons be stated. If a domestic producer is to be helped by a handicap on foreign competitors, let it be made clear from the start just what is to be done for him and just what a given tariff provision means. Let there be no more jokers.

Further, there is a strong conviction that inquiry should be made and publicity should be secured through some agency other than the House and Senate committees. These have an extraordinary multiplicity of details to consider. They are so wearied by prolonged and repeated hearings, crowded into a few weeks, that it is impossible for them to give serious attention to all the matters presented. It is not to be wondered at that the Senate committee refused to have public sessions. The House committee, which had much more time for preparation, was almost swamped by its hearings. The Senate committee, which of necessity had less time, naturally felt that it would be swamped once for all.

But this situation, perhaps making star chamber procedure inevitable, gives opportunity for covert changes, for concealed pressure from private interests, for irresponsible legislation. Hence the demand for some permanent body, equipped to make investigation, and to make a judicial report on the significance of proposed changes. Such cases as have been considered in the preceding pages show how tariffs should not be made.

X

THE PROPOSAL FOR A TARIFF COMMISSION [1]

The proposal for the establishment of a permanent tariff board or commission is regarded in many quarters as showing the way to a solution of the tariff question. There is much to be said for it. But there are serious difficulties and limitations, and above all troublesome questions about the character and make-up of the proposed board, and the course of action to be followed in improving our general political organization.

The first thing that needs to be borne in mind is that no tariff commission can settle policies. No administrative body of any kind can decide for the country whether it is to adopt protection or free trade, to apply more of protection or less, to enact a system of purely fiscal duties or "a tariff for revenue with incidental protection." Such questions of principle must be settled by Congress — that is, by the voters.

It is further to be borne in mind that the advocacy of a "scientific" settlement of the tariff does not carry us far. There are no scientific laws applicable to economic problems in the same way as the laws of physics are applicable to engi-

[1] *North American Review*, February, 1916.— This article is reprinted with no change of substance, and must be read with regard to the time of publication. Later in the year 1916 (October), Congress passed the act establishing the United States Tariff Commission. In the determination of its functions, the second of the plans described in the text was followed: the Commission was made an independent board, with powers of investigation only and with no administrative functions. My experience on the Commission has not led me to modify the opinions expressed in this article. Useful though the independent investigating Commission is for research and report, there is occasion for reorganization and consolidation of the various boards and sub-departments now concerned with customs matters.

neering problems. If we extend the term "science" to economics, we must remember that it can refer in this subject only to certain generalizations and to a body of useful information, not to a system of clear-cut principles or laws. Some of the economic generalizations are well established; others are of a very tentative and provisional sort. I believe some things are established concerning the working of protective duties; but there is no such a consensus of opinion on the subject as to give us a body of principles applicable at once in legislation, or such as to enable us to decide at once on a method of procedure. For example, it is often maintained, not only in the United States, but in other countries as well, that the "scientific" solution of the tariff question is that of the equalization of competition or the equalization of costs of production. The underlying idea is that such duties shall be imposed as will equalize the difference between cost of production within a country and a lower cost of production in foreign countries. Now, I do not myself believe that this is a scientific or a commendable basis for the levying of protective duties. Consistently carried out, it amounts to saying that all industries are equally worth having; that when differences in cost are great, duties should be correspondingly high; that every industry, no matter how ill adapted to a country's natural resources or its industrial qualities, should have the equalizing protection; that we should never stop to consider what are the directions in which we can apply a country's labor and capital to best advantage. The equalizing proposal is perhaps a convenient and workable way of dealing with a protective system which is established and to which important industries have adjusted themselves. Quite conceivably Congress might adopt such a principle, and request a tariff commission to frame a bill based upon it. But it cannot, in my judgment, be said to rest upon any established economic principle, or to be scientific in any accurate sense of the term.

One other preliminary remark may be made. Much is said at the present juncture about the importance of a tariff commission in order to put the country in a state of industrial "preparedness." The war, it is said, must necessarily come to a close before very long, and then new conditions of international competition will have to be faced. Should we not have a careful and elaborate inquiry as to the best way of facing the coming situation? On this matter also I doubt whether a tariff commission can help us much. No one, not the ablest set of men, even though provided with any amount of money for engaging "experts," can possibly learn what sort of industrial conditions will have to be faced when the war comes to an end. We could not go to European countries for the purpose of investigation, or send agents to European countries, for the obvious reason that the respective governments would not allow us to peer into their affairs. Even if we could send agents and get all possible information concerning existing conditions, no prediction could be made concerning the course of development after peace. And if all these difficulties could be overcome, there would remain yet a further difficulty in the way of getting "prepared." The elaboration of a tariff bill at the hands of a commission is necessarily a slow process. The experience of the defunct Tariff Board of 1910–12 indicates what must necessarily happen. That Commission was composed of able men, and it had large resources. It conducted excellent investigations and made valuable contributions to the understanding of some phases of the tariff. But it needed a couple of years to carry on its investigations, and even then was compelled to send in reports before the investigations were completed, because of political pressure to induce it to make some sort of early showing. If a tariff commission had the task of preparing a complete bill on all the complicated schedules, involving the vast range of our industries, it would

be quite unable to report or recommend anything until a considerable period had elapsed. No; the commission project must be judged, not with reference to any immediate emergency, real or supposed, but with reference to its value as a permanent policy.

Incidentally, I venture to express my opinion that there is exaggeration in the talk about necessity of preparedness for the coming conditions of peace. No doubt there will be a jar, a shock, when the war comes to a close. But it is not likely to be at all so great as that which came at the outbreak of the war. Then there was a crash from a clear sky. Now, everybody knows that the change is certain to come, and everybody is more or less on the lookout for it. It is in the highest degree improbable that the end of the war will cause an industrial crisis in any country at all comparable to that of the midsummer of 1914; and least of all in the United States. No doubt, there will be a period of readjustment, of uncertainty, very possibly of depression; then a gradual settling down to the new conditions. And as this gradual settlement takes place, it is by no means clear that any far-reaching change in international trade will be experienced. Certainly, so far as imports of manufactured articles into the United States are concerned, there is no probability that they will be greatly swelled. European industry is much more likely to be weakened than to be strengthened by the fearful strain of the war, and for some years in the future is less likely to be a formidable competitor than before. Undoubtedly, there will be varying conditions in different industries; but I see no indications of a portentous outpouring of exports. Whether the great struggle will eventually have far-reaching consequences upon the commercial relations between nations, it would be hazardous now to predict. But any long drawn out and slowly developing consequences of this kind can have no bearing upon

the immediate tariff problem confronting the United States. To repeat, the tariff commission project should be considered without regard to the war contingencies.

Nevertheless, there is much to be said in favor of a permanent tariff commission or organization of some sort. Even though it could not solve the tariff question on a "scientific" basis, or take the tariff out of politics, or evolve a scientific tariff, or put the country in a state of preparedness, it could render important services.

The main thing on which a body of this kind could be helpful is in the more careful preparation of tariff legislation. It could aid in the accurate, honest, and consistent carrying out of whatever policy Congress — that is, the party to which the voters had given control of legislation — might wish to carry out.

Every one knows that the traditional ways of framing tariff legislation have been in the highest degree haphazard. There has been rough and ready settlement by the Congressional committees, influenced in a general way by the Administration in office. The House Ways and Means Committee has framed its bill; the House of Representatives itself has then amended its committee bill. The Senate Finance Committee has made more or less hash of the House bill, and the Senate itself has made more or less hash of its own committee bill. Then the Conference Committee of the two Houses gets together. That Conference Committee, always under pressure because of short time, holding its sessions in secret, dominated by a few individuals, influenced more or less by advice or pressure from the White House, has evolved the final tariff bill. And, if there was to be any tariff legislation whatever, this Conference Committee bill had to be passed once for all in the shape in which it came from the committee.

All of the bodies concerned — the House Committee of Ways and Means, the Senate Finance Committee, the Con-

ference Committee, the President and the Secretary of the Treasury and the officials of the Treasury Department — have had a flood of statements and representations and statistics poured in on them. They have been veritably swamped by the mass of interested testimony. The legislative committees have had clerks or experts, selected hurriedly and put to work hurriedly — often selected because some one had a pull and wanted to get a job. Even the most conscientious chairmen and members of the committee could not possibly make themselves informed about the meaning of all the figures and classifications and specific duties and ad valorem duties. Influential persons could "fix" legislation and work "jokers" in, and eventually bring into effect provisions which could not be said to be intended by Congress or by any one except an occasional conniving member of Congress. Our tariffs have been settled in ignorant and irresponsible fashion. Of this we have become painfully aware, and it is natural that we should look for some sort of a remedy.

A permanent tariff commission, it may well be argued, could be, and would be, of much service. It could ascertain just what a given duty meant, just what sort of arrangement and classification was expedient, whether a particular phraseology entailed consequences not at all obvious on the surface. If composed of really able and experienced men, its recommendations would have weight. No one supposes that Congress would adopt them as a matter of course. They must always be in line with the general system of industrial policy, — toward protection or toward free trade, toward raising duties or reducing them — which the political conditions determined. They would necessarily be subject to change by Congress. But they would probably have a strong backing from public opinion; they would enable high-minded and conscientious members of Congress (and these constitute the majority) to ascertain the exact situation and to support care-

ful legislation. A commission might greatly improve the situation.

There is another aspect of the proposal to which little attention has been given in current discussion, and which is of the first importance. What *kind* of a commission shall we try to set up? Shall it be an entirely independent body, like the Interstate Commerce Commission or the Federal Trade Commission, quite separate from the ordinary administrative agencies of the Government? Shall it be concerned primarily with industrial investigations, and shall it give advice chiefly on questions of industrial policy? A commission quite independent, and giving attention chiefly to matters of policy, is most commonly advocated. And yet there are serious difficulties in the way of such a plan.

In the first place, the very existence of a permanent tariff commission whose main purpose would be to recommend tariff legislation to Congress, would be a constant *incentive to change.* The only excuse for the continued maintenance of such a commission would be that the tariff needed continual readjustment. The commission itself would feel bound to justify its usefulness by unremitting investigation, and it would necessarily have to make repeated recommendations to Congress. But one of the things borne in on every thoughtful observer of tariff changes, whether an economist by profession or an experienced man of affairs, is that incessant changes in tariff legislation are bad. Better a low tariff once for all or a high tariff once for all, than constant shifting or incessant suggestion of shifts. The industries of a country can adapt themselves to almost any tariff system if only that system be settled and maintained. Moreover, one among the few general principles or "scientific" statements which the economist can authoritatively lay down is that such benefits as accrue from a system of free trade are secured only if that system is maintained for a long time; and, on the other hand, that such gains as are obtain-

able from protective duties (by protection to young industries, for example) are secured only if the protective duties are maintained for a long time. A permanent tariff commission whose function it was to make repeated reports and recommendations would tend to constant modification, constant change, constant unsettlement.

Hence if we are to have a commission whose duty it shall be to shape the tariff or solve questions of policy, I am inclined to think well of some such plan as that of the Tariff Board of 1910–12. Let its duty be to make inquiries, to secure a body of accurate information, to make recommendations *for a given situation.* Let it be avowedly for an immediate purpose: to serve Congress and the committees in framing a particular piece of legislation. Such was the case also with the Tariff Commission of 1882. The recommendations of that Commission, it is true, were by no means followed in their details when Congress passed the Tariff Act of 1883. Nevertheless, the tariff of 1883 was a better piece of legislation because of the recommendations of the Commission than it would have been without them. It is not too much to expect that even greater weight would be given to the recommendations of a similar commission in the future, and that it would serve even more to make a tariff act careful, well-balanced, consistent.

It is conceivable, however, that we should have a commission whose duties should be not solely those of report and recommendation on general policy, but which should have to do largely with the settlement of current administrative questions. This is precisely the situation with the Interstate Commerce Commission and the Federal Trade Commission. They have stated duties in connection with the administration of legislation. These, indeed, are their chief duties. The Interstate Commerce Commission is a sort of court. Its chief business is to decide specific matters at issue between the shippers and the railways. The new Federal

Trade Commission is given jurisdiction of a similar kind. Both have, in addition, the power and duty to make investigation and report. But it is not incumbent upon them to be mainly or continuously on the lookout for changes in legislation. They are chiefly concerned with the administration and improvement of the existing situation, and they recommend legislation so far as their experience enforces upon them the desirability of changes consistent with the general spirit and policy of the legislation already in force.

Now there are administrative questions in connection with the tariff which are constantly calling for solution, and which at the same time bring to light the need of changes in legislation. There are vexing questions of classification under the tariff — whether a particular piece of machinery should be classed as a manufacture of wood or a manufacture of iron, whether the chief component material of a fabric is wool or silk. There are questions on the methods of appraisal of duties. Inquiries must be made in foreign countries relating to the values upon which ad valorem duties shall be assessed. Strictly legal questions of interpretation arise, which now go to the Court of Customs Appeals. Statistics must be compiled and intelligently presented.

For all these matters we now have dispersed and complicated arrangements. We have the Board of General Appraisers, which is a sort of court for deciding on the appraisement of merchandise. The Assistant Secretary of the Treasury in charge of customs instructs collectors on the classification of customs; and the Customs Divisions of the Treasury Department have similar duties for the routine cases. There are special agents of the Treasury who go abroad and make investigations and reports. Consuls and consular agents abroad make similar investigations. The Bureau of Domestic and Foreign Commerce in the Department of Commerce has a staff of commercial agents who make reports concerning the development of American trade

in foreign countries. On the other hand, the newly established Federal Trade Commission is making inquiries of its own concerning the possible development of foreign trade. A number of agencies are working upon various phases of the same general problem.

There is thus a large body of more or less scattered information which would be useful to Congress. And notwithstanding this multiplicity of agencies, there remains information which a committee of Congress would wish to have and which can not now be had, or, at all events, is not readily accessible. A single body, having the duty of collating and coördinating the available information, and equipped to secure such further information as might be desired, could render important service. Further, it is at least possible that such a body should be given administrative functions or some powers of supervision and coördination, and should thus be of service not only to Congress but to the executive departments also.

There are two possible ways of gathering and coördinating the desired information. It might be done by a purely executive board or sub-department; say, a bureau consisting of permanent officials in the Treasury Department or in the Department of Commerce. Something of the sort exists in the Bureau of Foreign and Domestic Commerce recently established in the Department of Commerce. Under this arrangement the information would be given to Congress not by an independent tariff board, but by permanent officials regularly serving in the executive departments. The alternative is that of an independent board having no direct administrative duties and no close affiliation with any existing department, but serving as a sort of clearing house and organizer, and responsible to Congress alone.

On general principles there is much in favor of the first plan. It would seem, indeed, that the very object for which the various officials in the different departments exist is not

simply the administration of existing laws but the consideration and suggestion of improvements in them. Unfortunately, the traditions of American political life present serious obstacles to the assignment of such functions to the department officials. The higher administrative appointments in all departments are regarded as political. With every Administration the personnel changes. Not only the members of the Cabinet, but all the responsible and well-paid officials are shifted with every political overturn. That this is a serious evil, and one that grows more serious with the increasing complexity of legislative problems, is recognized by every intelligent observer. The great bane of American politics is the absence of good permanent positions. The good positions are not permanent, and the permanent positions are not good. It is only the minor posts, whose salaries are not large enough to constitute political plums, that are left to permanent officials. And yet these obscure permanent officials, because often they alone are experienced and well-informed, have great influence in shaping current administrative practice and the details of legislation as well. It has been said with truth that the Government of the United States is run by $1,500 clerks. We have sore need in our public service of a body of able, well-paid, permanent officials, whose positions shall not be affected by party changes, who shall not simply follow in mechanical fashion the precedents of their offices as they have found them, who shall be able to give intelligent advice as well as useful information.

Nevertheless, it will be urged, and with much force, that under the existing traditions of our political life the only way to secure a permanent, dignified, able, non-partisan body is through the establishment of an independent board. A board composed of administrative officials would necessarily be subordinate to the heads of the several Cabinet departments, and would be supposed to be under their political influence. To have the desired non-partisan and impartial

character, it is said that a tariff board must be composed of new appointees — independent persons, and men of larger caliber than can now be expected as sub-officials in the departments. One's attitude on a problem of this sort is necessarily influenced by one's general expectations and hopes on political matters. Will there never be in our Federal service a permanent body of officials, experts in their subjects, not changing with every Administration? Will public service never offer a professional career to men of large ability? Will all the good places in the departments always remain within the spoils system? I can understand that, in view of the rooted habits of the present and the past, it may be concluded that permanent expert service on the tariff can be got only by the establishment of a separate commission. I hope for myself that we shall learn to make our regular administrative machinery better, that we shall improve the existing system step by step instead of getting round it step by step. But it is easy to understand the attitude of those who believe existing traditions and ways, even though admittedly bad, to be so strongly intrenched as to make it hopeless to attack them directly.

The essential thing is that we should have a permanent and really non-partisan set of officials whose first duty should be to assist Congress in the intelligent and careful framing of tariff legislation. Its main function should not be to give advice to Congress upon questions of policy, or to undertake investigations which rest upon the assumption that some particular policy is to be carried out. It has been proposed, for example, to establish a tariff commission whose most conspicuous duty should be to ascertain the difference between cost of production in the United States and cost of production in foreign countries; the assumption being that this is the basis upon which tariff legislation ought to be constructed. It is tolerably certain that a tariff commission which proceeded on a basis of this sort, and whose functions were

spect of Congress and of the public if carried on by a board which had already established its usefulness and its impartial spirit by routine work more nearly of an administrative sort. The more ambitious and high sounding its duties, the less likely is it to be really successful. Let it be given mainly the function of assisting Congress in the intelligent elaboration of whatever policy the country has decided to follow, and make no pretense of removing the determination of policy from the quarter where in the end it necessarily belongs: Congress and the voters.

XI

TARIFF PROBLEMS AFTER THE WAR [1]

THIS paper, dealing with the tariff problems that will arise in consequence of war disturbances, will be restricted to such as have a direct and close connection with tariff legislation. There is no occasion for considering here those abnormal conditions which have only an indirect bearing upon tariff legislation — the extraordinary development of the munition-works, or the unusual conditions with regard to the supply of some raw materials, like hides and leather. Many industries for whose products there has been a marked war demand will have to face problems of readjustment after the war. But tariff legislation can do little for the war babies. For tariff purposes it is the non-war industries that call for attention — those which have been stimulated by the restriction or disappearance of imports. Many articles formerly obtained from abroad have come to be made in the United States. What is to happen to the industries which now provide them? On what principles shall we proceed in readjusting tariff rates on commodities which were imported before the war, and not improbably will be again imported after the war, if tariff duties remain as they were before?

A kindred question, and indeed in many respects the same question, is whether the United States shall in the future aim to be an economically independent country, self-contained and self-sufficing. Shall we look forward to a resumption of international trade on substantially the same lines as were

[1] Reprinted by permission of the publishers, E. P. Dutton & Co., from the volume on *American Problems of Reconstruction*, second edition, 1919.

followed in the past, or to a world order entirely new? It is inevitable that foreign trade shall be in some important respects very different from what it was before. But how great is the change likely to be and how far shall we endeavor to regulate it and control it? In some quarters there is expectation of a great expansion of exports after the war, a great increase of foreign investments, a great development of the mercantile marine and of the carrying trade, close connection of the United States with industrial matters abroad as well as with foreign politics. Others look forward to a diminution of imports, to less reliance upon foreign supply, to domestic production of things formerly bought abroad, to the maximum of industrial independence and self-sufficiency. These are very different expectations and very different points of view. They are not readily to be reconciled. If exports greatly increase, so will imports. If imports are much reduced, exports also must be expected to shrink. The policy which we shall follow with regard to tariff legislation must be consistent with our policy in the wider political and industrial problems involved.

The terms "self-sufficiency" and "economic independence" are vague. No one would propose to cut off foreign trade entirely. Whatever our tariff policy, we shall continue to export largely and to import largely. True, it is tolerably certain that the relation between exports and imports will not be the same as it was before the war. We are not likely to have the remarkable excess of merchandise exports, or so-called "favorable" balance of trade, which the records have shown for the last thirty or forty years. In any case we shall import on a great scale. If there is to be that increase of exports, absolute and relative, which is confidently expected in many quarters, we shall import in even greater quantities than before. Whatever the future relation between imports and exports, foreign trade is certain to remain a large factor in our industrial organization.

Complete self-sufficiency, in the sense of domestic production of everything we use, is out of the question, and in any case it is inconsistent with the ambition for an expanding export trade. "Economic independence" is a matter of degree.

Imported goods — those imported in the past and those which may continue to be imported in the future — are divisible into three classes, which may be styled, resepectively, the military, the essential, the non-essential. The line between one and the other of the three cannot always be drawn with precision. There will be differences of opinion on the place of many a commodity in one or the other of them. But they are broadly separable; and the tariff situation will be made clearer if they are taken up one by one.

The first class, military commodities, includes things needed directly for war purposes, such as rifles, artillery, munitions. The second, the essentials, include things not indeed needed primarily for military use, but of vital importance to the life of the nation. Such are the fundamental food materials, fuel, clothing materials, timber. With regard to these, the question whether their domestic production be deemed essential is affected by the possibility of obtaining or increasing a supply with comparative ease and speed. A thing may be essential; yet if the needed supply can be rapidly secured when needed, it is no great matter if we do not now possess a stock. The third class ranges all the way from luxuries which are clearly superfluous to conveniences and comforts which habit has made it difficult to dispense with.

I.— MILITARY ARTICLES

As regards the first class, guns, powder, military equipment, explosives, armor plate, and the like, the principle is simple. It is obvious that there must not be complete dependence on foreign sources of supply. The only disput-

able question is whether munitions shall be manufactured by the Government directly or by private industries to be supported by government aid if unable to hold their own without it. If private industries are subsidized or supported, there must be some control and regulation of their profits. As to such things practically no one would advocate a policy of complete dependence on imports.

The principle is simple and clear. But how far shall we carry it? Shall we go so far as to assure the production within our borders of the entire supply of every item needed for great military and naval establishments?

During the early stages of the European war this question was raised in connection with our own great exports of munitions. We were then neutral; we were selling munitions on a great scale to warring countries. Under international law our right to do so was clear. It is as well settled as anything in international law that a neutral nation may lawfully allow its citizens to sell munitions and any contraband of war to belligerents — subject, of course, to the chance of capture. But many people asked, is this rule of international law, settled though it be, a *good* one? Should the law be modified? It was argued that the extraordinary scale of our exports showed the sale of munitions to be in effect unneutral, and inconsistent with a real regard for good order and peace. The answer made — by Mr. Taft, for example — was that such transactions were not unneutral, being in effect conducive to peace, not to war. Quite apart from the question of making a change during the very time of war, and in such way as necessarily and deliberately to influence the fortunes of the conflict then raging, the point was made that if a belligerent country could not buy munitions from neutrals, it must be prepared to supply its needs entirely and once for all from its own resources. It must make for itself, or store on a great scale, cannon, rifles, explosives, all munitions. No such vast preparation would be

necessary if it could purchase from neutrals. A country which looks to peace, hopes for peace, works for peace, should not consistently adopt a policy of the most thoroughgoing preparation for war. The argument which thus defended the position of the United States in the international controversy evidently ran counter to a program of all-embracing preparation. It assumed that even for direct military purposes something short of self-sufficiency might be in accord with the best international policy. Even here, it thus appears, are some questions of degree, some stretches of debatable ground. Complete dependence on foreigners for the apparatus of war is not conceivable for a great nation; but absolute self-sufficiency is not necessarily the wisest policy.

In the same class as munitions in the strict sense would be placed materials indispensable for military supply and equipment. Of these, at least a minimum needed for the supply of the army and navy should be produced at home. Among such are iron and steel, copper, leather, wool. To be absolutely dependent upon foreign countries for them is to be under a grave military disadvantage. But in this regard there is no serious difficulty for the United States. Under any circumstances we shall produce enough to supply the strictly military needs. Conceivably the civilian population might be inconvenienced in time of war, possibly subjected to positive suffering, because of a lack of these fundamentals; as was the case in Germany because of the lack of wool and leather. But the civilian supply raises a different set of problems, to be considered under our second head. So far as concerns military needs proper, the United States needs to be watchful concerning its supply of the guns, the explosives, the war ships; but as regards most raw materials, and as regards the plant, equipment, and machinery necessary for working them up, the situation need cause no foreboding.

A difficult question arises concerning some articles of

minor quantitative importance, which are not readily obtainable by domestic production, perhaps are not so obtainable at all, yet are important for military purposes. Such are nickel and tungsten, used in hardening the ferrous metals; antimony, used for shrapnel shells; quicksilver, indispensable for firing any kind of ammunition; nitrogen (ordinarily in the form of nitrates), of the first importance in the manufacture of explosives. We have practically no nickel, no deposits of nitrates, sparse deposits of antimony, uncertain ones of tungsten and of quicksilver. What is the best way of making military provision?

There are two ways. One is to stimulate domestic production by tariff duties or bounties, or by the equivalent of bounties through government purchase at guaranteed prices. The other is the accumulation by the Government of a large fixed stock or reserve, to be kept always in hand and to be available at once in case of war. The choice between the two is sometimes confused by an advocacy of domestic supply and of protection to domestic producers, on grounds of general industrial policy. It is urged we should not be dependent on foreigners for these articles; "dependence" being used with the same implications as the term would suggest in the case of non-essentials like toys or chinaware. General arguments for protection are interwoven with the specific arguments for military preparedness. From the military point of view, much is to be said in favor of the policy of accumulating an ample store; it is more secure than are meager domestic mines and deposits. Such domestic sources of supply are subject to political as well as physical vicissitudes. A protective policy, even though instituted with an eye to military needs, may be given up when a long period of peace has obliterated the traditions of warlike preparation.

A peculiar case under this head is that of the coal-tar industries, which furnish at once dyestuffs and explosives. The Germans, as we all know, had a unique command of

them — a dominance such as they had in no other manufacturing industry. Dyestuffs in themselves do not belong in the military class; indeed, do not seem to belong even in the essential class. Though often spoken of as essentials for textile manufactures, they can hardly be said to be indispensable to the life of the nation or even to its comfort. True, a textile concern which lacks good dyestuffs must go to the wall if its competitors are supplied with them; but if all alike are cut off, the consequence is simply that the community, and especially the women, will have to get on with fabrics not quite so alluring and tempting, perhaps not quite so fast in color, as they might be. The ground for considering articles of this kind in connection with military needs is the close interrelation between explosives and dyestuffs in the coal-tar industry. It is not entirely true, as is sometimes intimated, that a dyestuffs-plant can be converted into an explosive-plant over-night. But true it is that the early steps, and many of the intermediate steps, in the production from coal-tar of dyestuffs and of some important explosives, are the same. At a point in the processes which is considerably advanced there can readily be a diversion in one direction or the other — either to the manufacture of dyestuffs or to the manufacture of the shell-filling high explosives. Not only has the same plant much apparatus which is available for both purposes, but the same set of trained chemists and skilled workmen can be used. The possibility of alternative use is thus one of degree, of flexibility; and the feasibility of transfer to military uses is sometimes exaggerated. Explosives as a rule are greater in bulk than the related dyestuffs; under ordinary circumstances some readjustment of plant is necessary for getting a supply of explosives from a dyestuffs-plant. But after all qualifications are made, a strong argument remains in favor of regarding the dyestuffs manufacture as potentially a military industry. It has the further advantage of being a military industry which can be utilized in times of peace.

There is no question that early in the war the German dyestuffs-plants were turned to the production of explosives. It is urged that such utilization of them was deliberately had in view, as one of the many preparations for the great war. And it is well known that the larger American manufacturers of explosives have turned to the production of dyestuffs as an industry for times of peace.

There are other reasons — to digress for a moment — why the dyestuffs industry stands by itself. Not so much that it is a "key" industry; the extent to which dyestuffs dominate the textile and other manufactures is often exaggerated. But the complete control in the industry which the Germans aimed at before the war, and largely succeeded in securing, threatened consequences which the most convinced free-trader must regard with apprehension. Combinations in the nature of gentlemen's agreements were in effect even then between the different concerns. Now, as all advices indicate, there is a firm kartell, or tight combination. Here is a foreign monopoly — a real monopoly, and not merely (what is often styled a monopoly) localization in a foreign country of an industry within which there are many competing concerns. A solid German kartell in the coal-tar industry is pretty sure to be a strenuous competitor. It may try to crush competition in foreign countries by selling at cost or below cost, and then recoup by advanced prices when the competitors are destroyed. Possibilities of this sort are often paraded as a bugaboo by extreme protectionists, when the facts give little occasion for concern. But here is a case where there may be veritable need for industrial self-defense.

And yet it remains, in some respects, a puzzling case. The German concerns have been ruthless competitors, and may still be. Yet they have also been, and perhaps will remain, more efficient producers than their rivals in other countries. They do the job well. They make good dyestuffs, and make them (certainly did make them) cheaper than competitors

abroad. Industrial, technical, social conditions favored the industry in Germany as nowhere else. To shut the Germans out entirely would seem of doubtful advantage to the rest of the world. A middle ground should be found between complete exclusion and unfettered freedom. Possibly, and much to be desired, is some international agreement providing for fair competition, no deliberate dumping, no cut-throat industrial warfare; a consummation depending on the kind of peace — a true peace, a real concord of nations? — which shall be eventually secured.

Still another consideration must be borne in mind. The complete dependence on a single country for the main dyestuffs, of which we became unpleasantly aware in 1915, is not likely to be again experienced. Other countries, no less than the United States, are concerned that this situation shall not recur, and are developing dyestuffs industries of their own; notably Great Britain and France. Switzerland, long the seat of a dyestuffs industry, will remain so. In the future there will be competition between manufacturers in different nations to a vastly greater degree than before the war, and hence no longer a reliance on any one source of supply. The chance that all sources will suddenly be cut off from the United States is almost negligible. Even if there be much reliance on imported supplies, the conditions will be less fraught with danger than those which prevailed before the war.

II.— ESSENTIAL ARTICLES

Next, the second class of commodities: essentials for the civilian population. Shall the nation be quite independent of foreign supplies for its grain and its meat, its wool, leather, cotton, coal, copper, iron, and steel? The problem for many countries, and indeed for most countries, is complex and difficult. Italy has no coal; in what way shall she make pro-

vision for the possible curtailment of foreign supplies of coal in case of war? Italy is no less lacking in iron and steel. France has no copper; Germany very little. Germany cannot be self-sufficing as regards many commodities — not only copper, but wool, leather, cotton — without huge and now impossible expansion. Neither can France or Italy or Austria. The British Isles are self-sufficing only as regards coal and iron. Foodstuffs and raw materials of all kinds must be obtained by the British from overseas — either from foreign countries or from colonies or self-governing dominions. Tariff protection for these materials and their domestic production would mean a crippling of British manufacturing industries. And in many cases tariff protection could not possibly achieve self-sufficiency.

But this phase of the problem need cause the United States less concern than other nations. We are fortunate in being able to procure within our own borders grain, meat, coal, iron, copper, timber, cotton, wool, leather, in quantities sufficient for our essential needs. True, we do import some important materials in considerable amounts, such as wool and hides. But we are not so dependent on foreign supply as to be in a position of imminent peril or serious suffering, even though the foreign supply should be entirely cut off.

There are some things, however, which may give us occasion for concern, or at least for sober reflection. How far they are absolutely essential, may be an open question. But there are much needed articles for which we were quite dependent on foreign countries before the war. A typical case is that of potash. The potash situation is peculiar in that here also Germany had a monopoly. And the monopoly had been for some time a true monopoly, not merely a geographical concentration of supply. There was a strong kartell, in which the Prussian Government, as mine-owner and producer, had a controlling influence. Potash is mined in great quantities from the remarkable German and Alsatian deposits,

and has been exported by the Germans to many parts of the world. The United States has been the largest among the foreign purchasers. The Germans think it is indispensable to us — as indispensable to us as our cotton is to their textile industry. Potash in exchange for cotton — this was their bargaining cry.

Potash is used for manufacturing purposes, as well as for agriculture. It is important, for instance, for some branches of glass manufacture; for matches and some kinds of explosives; for making soft soaps. As regards these uses no completely satisfactory substitute is available. In other industries, though convenient, it is replaceable by satisfactory substitutes. But for all the manufacturing uses taken together the quantitative demand is not considerable, and probably can be met without serious difficulty from domestic resources. Potash in small amounts can be got from certain brine deposits in Utah and the western part of Nebraska, and in probably larger quantities from the analogous deposit at Searles Lake in California. Some can also be got from alunite, greensand, wool scourings, distiller's and sugar-beet-factory wastes, as well as from the giant kelp which fringes parts of our western coast. Still other important potential sources of supply are cement dust and dust from blast furnaces. The cost of producing potash from many of these sources will probably be much higher than the pre-war prices of the imported potash; but since no considerable amounts are used for any single manufacturing purpose, higher price of the material would not be of vital consequence.

It is in agriculture that really large supplies are needed, and are needed at low prices. Of the pre-war imports ninety-five per cent went into fertilizers. And the plain fact must be faced that, so far as agricultural needs are concerned, there is nothing now in sight effectively to break the German monopoly. The 226,000 tons of actual potash which were being used for fertilizer purposes before the war cannot be obtained

for some time from any visible sources except the German mines, for our total output for 1918 promises to be only about 60,000 tons of actual potash. How far is the country in this regard vitally dependent on a foreign commodity?

Here is the situation. Over large areas of the South and East our agricultural crops are grown with the use of large supplies of fertilizers in which, excepting for temporary periods, potash is an indispensable ingredient. Such is the case in the citrus groves of Florida and Porto Rico, in the potato areas of Maine and the Atlantic seaboard, the tobacco-fields of Kentucky and the Connecticut Valley, truck-garden regions from the Mississippi River to the Atlantic and from the Gulf of Mexico to Canada, and in most of the cotton-fields east of the state of Mississippi. Potash is also needed for some crops in Ohio, Indiana, and other of the Middle-Western states, including many of the sandy potato soils of Wisconsin and Minnesota, as well as the great areas of peat soils in all parts of the country. In these regions its lack means serious embarrassment and need of difficult readjustment. But fortunately American agriculture in general is not so seriously dependent. In the great Central region of the country, potash is only needed here and there for special crops, such as potatoes, onions, and tobacco. The heart of the country is almost completely independent of this particular plant food. As time goes on, and the inevitable transition to more intensive cultivation takes place, American agriculture not only in the East and South, but also west of the Alleghenies, if it is to meet the food requirements of a rapidly increasing population, will indeed need increasing supplies of phosphates, of nitrogen, and of potash also. But this ultimate need is not a matter for present concern. During the period of readjustment after the war, the country as a whole will be more dependent on artificial fertilizers than it has been in the past.

In the regions which may be called dependent, again, the

need of potash could be lessened, but not overcome, by a complete change of agricultural procedure. Our agricultural methods and crop specializations have been adjusted to the available fertilizer supplies and to the market demand for special crops. Fifty years ago, even thirty years ago, commercial fertilizers, though then they would have been valuable in the East and South, were little used. Extensive crop specialization was practically in its infancy. It is not out of the question that there should be a return in some degree to the agricultural methods of former times: more barn-yard manure, a different rotation of crops, a self-sustaining agriculture. Such a change, however, would entail all the difficulties of transition. Farmers are traditionally conservative, not easily moved from their existing ways, slow to accommodate their methods of cultivation to new conditions. Not only this; farmers would probably find a self-sufficing agriculture less profitable. It is doubtful, for example, whether a larger net money yield to the producer would be obtained if the cotton-planters of the South, instead of allowing their cotton-seed cake to go to Europe or to other parts of the country, were to use it for their own cattle and were to turn their attention to dairying and meat production to that extent. If the supply of potash or indeed of other fertilizer were to be permanently cut off, a readjustment in this direction would be inevitable; but it would be by no means necessarily profitable.

The confidence which the Germans exhibited when talking about their potash was in keeping with the self-deception which did so much to plunge them into false moves in every direction, economic as well as diplomatic and military. Perhaps their attitude was no more than braggadocio — not so much self-deception as an attempt to deceive others. Their potash is highly acceptable under present agricultural practices; but it is by no means indispensable. Should they shut

it off from the United States and other countries, agriculture would gradually adjust itself to new conditions based upon a different cultivation and in part upon the cost of recovering by-product potash from various industries. Meanwhile the search for other underground deposits, already initiated the world over, would be prosecuted the more eagerly, with a strong probability that, as is commonly the case with materials thought to be unique, competitive sources of supply will be discovered. Indeed, similar deposits are already reported to have been found in Russia, Spain and Abyssinia. Most of all, the recovery of Alsace by France opens the one natural source of supply which is known to be comparable to that of Germany. The Alsatian beds are large in quantity and excellent in quality. Opened and developed by the Germans themselves shortly before the war, they constituted at its close the one effective competitor to the German kartell.

The sort of economic warfare and would-be strangulation implied in the quest for control of essential materials and "key industries" is to my mind abhorrent. It is not to be thought of as part of a peace that shall really terminate the great war. But if it must be faced as among the possibilities of an inconclusive settlement, the United States is in a stronger position to let it go on than any other country. So far as concerns potash, which illustrates best our own inadequacies and needs, we may be composed. After the war, we shall probably be quite willing to admit it free of duty, as we did before the war. If the Germans should be so foolish as to prohibit its export to us — a most unlikely contingency in the final settlement — we should quietly accept the situation, readjust our own affairs accordingly, and, if there must be economic war, resort to retaliation more effective than any possible thrust directed against ourselves.

III.— NON-ESSENTIAL ARTICLES. THE TARIFF CONTROVERSY

In the third class, that of non-essentials, belong a number of articles which in pre-war times were imported from Europe, and after the peace probably would continue to be imported under the existing scale of duties — those of the tariff act of 1913. Such are the more expensive grades of woven textiles — woolens, cottons, silks, linens; the finer grades of cotton yarns; embroideries and laces; a good deal of porcelain and chinaware, and a few (not many) kinds of glassware; toys from Germany; brushes for toilet use; cotton and leather gloves for women; notions, buttons, and so on through a long list. Many are clearly articles of luxury; others are dispensable conveniences. Some have come to be made in this country during the period of disjointed foreign trade, but not a few have continued to be imported through it all.

Still other things may be put in the same class, namely, those which, though perhaps deemed to be essential, need cause no concern because their domestic production can be undertaken or expanded in a short period of time. Laboratory glassware, for example, was formerly obtained almost exclusively by importation, and chiefly from Germany; a large proportion of the imports was admitted free of duty because used by educational establishments. Almost all the forms and shapes are now made within the country, of excellent quality. But they are not sold at as low a price as that of former imports; and it is possible, even probable, that after the war the same disparity in price will remain, and imports will be resumed. Being usually of special shape, made in small lots of any one pattern and with much hand-labor, they are produced more cheaply in countries where wages are lower and where special skill of the needed sort can be had at a moderate rate. On the other hand, the increase of supply in this country took place very quickly under war conditions, and doubtless would take place again under similar conditions

in the future. The case is much the same with optical glass and spectacle glass. It is quite feasible to make these within our own borders; but under the normal conditions of foreign trade they are obtained more cheaply by importation, and for the same fundamental reason — in the main they are products of handicraft labor. Surgical instruments, too, came mainly from Germany before the war; they too, like munitions of war, have been turned out by domestic producers in large quantities in response to a sudden demand.

As regards all these articles, whether non-essential or producible at home on short notice, quite a different problem arises, and quite a different train of reasoning must be followed. The protective controversy pure and simple must be faced. The thoroughgoing protectionist view is that the previous importation of any commodities which could have been made at home was always bad, and that the stimulation of domestic production, fortuitous though it may have been, was in itself good. From this point of view, the dependence upon foreign supply had always been a cause of economic loss; the interruption of foreign supply because of the war served only to bring out clearly the economic disadvantage of the situation. And from this point of view, too, the resulting inconvenience and distress were a blessing in disguise. We have been compelled to face squarely a serious situation. The country should be independent and self-sustaining always and in every possible direction, not merely on political and military grounds, but on purely economic grounds. The same trend of opinion will appear in all the countries which have had a protective policy; they will have to consider whether protection is to be maintained, extended, or mitigated. Not only in the United States, but in other countries, those who believe that the substitution of domestic production for imports brings in itself unfailing gain, will seek support for their contentions from the war experiences; and everywhere they will call for higher tariff rates.

And, as I have already intimated when speaking of the military commodities, there will be some confusion of thought between this frank and uncompromising protectionism on the one hand, and political and military preparedness on the other. Many persons will be eager to make their country self-sufficing, independent, safe; they will be averse to foreign supply on grounds partly patriotic, in part sometimes selfish. They will believe it a conclusive proof of national gain that a thing is made at home instead of being brought from abroad; they will hold the foreign purchase specially damaging if made from a present rival, and ominous of disaster if made from a former enemy. If they are themselves producers of articles affected by foreign competition, they will not be loath to fan international jealousy and commercial strife. On every ground — political, military, economic, sentimental — they will argue that all things should be made at home that can possibly be made at home, and most insistently will urge that every newly stimulated industry should be safeguarded by ample tariff protection.

The free-trader, upon the other hand, will maintain that on strictly economic grounds, and quite apart from any questions of political expediency or international sentiment, the matter should be treated as simply involving a balance between gain and loss. He will argue that the continued importation of a commodity in times of peace is in itself a sign not of loss but of gain. Imported goods are paid for, not through a losing trade in which we part with so much money, but in exchange for exported goods; and they are obtained presumably on better terms when got in exchange for the exports than if they were produced at home. True, war brings a temporary loss — rude interruption and sudden cessation of supplies, improvised substitutes, higher prices, domestic production under forced and perhaps wasteful conditions. The sudden transfer of labor and capital to new industries takes place with a loss of efficiency and with much waste; the

succeeding readjustment, if imports are resumed after the war, again entails loss and waste. Here, and here only — in the wastes of sudden changes — is the offset to the presumable gain from free international trade. In the long run, a country does not lose by free imports, but gains.

An analogy, from the free-trader's point of view, is found in the interruption of traffic on a railway or street railway during a strike — something which is often talked of as industrial warfare. During the interruption of traffic, when the existing facilities are unavailable, there is resort to substitutes less efficient and more expensive. Jitneys and express-wagons replace street-cars. But such losses, possible and real, are more than offset by the continuing benefits which improved methods of transportation bring in ordinary times. No one would propose to dispense with railways or street railways because their services may be interrupted by civil commotion. To be sure, if such commotion had to be reckoned with as part of the ordinary course of events, we might be skeptical of the expediency of relying upon means of communication likely to become frequently and repeatedly inoperative. And so with regard to war and international trade: our attitude is influenced profoundly by our expectation of the future of war and peace between nations.

Between these extremes there are various shades of opinion. There is the moderate free-trader, who has long shed any notions about natural rights to free trade, and has also discarded the belief that the cure for war can be found in universal free trade. Such a person, too, is likely to admit freely the possibility of gain from protection under some conditions — say, those of protection of young industries. He must be impressed also by the portentous changes now brewing in the international order. The world is different from what he wished and perhaps fancied. Not only is defense more important than opulence, to use Adam Smith's oft-quoted phrase, but opulence itself is threatened by the universal

crash. How far we must reshape all our ideals and policies must depend upon the eventual outcome — whether the world is to be readjusted to a permanent peace or to everlasting struggle. But the dream of universal free and peaceful exchange of goods has had a rude shock. The strictly economic arguments for protection usually admitted by the moderate free-trader — admitted by him to apply only under exceptional conditions — are reënforced by the hard facts of international conflict, of national jealousy, insecure interchange of goods, cutthroat competition. Such a person would still resist, from intellectual conviction, the extreme policy of the uncompromising protectionist. But he would hold aloof also from the attitude of the uncompromising Cobdenite.

Still another shade of opinion is that of the "reasonable" protectionists. These maintain a faith in protection, but would not carry it too far. No doubt the term "reasonable" is question-begging. The critic inquires at once what is meant by reasonable, and is apt to get only the equally ambiguous answer that it means, not too much. But at all events a protectionist of this type, though desirous of maintaining some dam against foreign competition, would repudiate the Chinese-wall suggestion. He looks for the eventual development and independence of domestic industries, somewhat after the fashion of the free-trader who admits the young industries argument; yet he would not sacrifice any domestic industry once established, even though it continued to demand and need a considerable degree of protection indefinitely and forever. He is likely to be in favor of what is called the equalization of the conditions of production. Yet he would not equalize everything, and is disposed to accede to the continuance of imports where they would be kept out only by duties at very high rates.

Which of these principles shall prevail, and which shall dominate the policy of the country during the generation following the war, depends largely on political developments in

the United States. What party will win in the elections of 1920? The embers of the controversy on protection, buried for a while during the political truce which was maintained through the war, have been stirred once more. The old arguments have come forward, and the old issue will have to be faced again. There is not likely to be a clear-cut issue between protection and free trade. But there will be one on the *direction* which the country's tariff policy shall take. Shall we move toward higher duties, stringent provision against foreign competition, watchful aid to every industry that has been stimulated by the war, building up of every one not absolutely impracticable because of climatic or physical obstacles? Or shall the trend be toward an acceptance of foreign competition as healthy, in the main beneficial, not to be jealously excluded; toward sharp scrutiny of the claims and profits of protected industries, and vigilant care for the consumer? The march of events must be awaited.

This conclusion — which states a question, not an answer — is not a satisfactory outcome of a discussion of reconstruction problems. Yet the plain facts of the situation must be faced. No one can predict with assurance the political future, and no one can now lay down the lines of a policy for tariff reconstruction. A period of controversy, partisan debate, uncertainty in legislation, is inevitable. It is possible, and certainly much to be desired, that some matters not necessarily involved in the general debate may be settled on nonpartisan lines; such as the methods of provision for military commodities, and perhaps the tariff for specially situated industries like the manufacture of dyestuffs. But it remains to be seen what will be done even on matters such as these; and on the wider questions of industrial policy, we must simply wait and see what the future will bring.

Further, much must depend upon the kind of peace with which the great war ends. Is it to be a peace of victory and conquest, or a peace of understanding? A sullen truce, or a

whole-hearted settlement? Will it include commercial peace, or give play for continued commercial war? There will be strong pressure for the tightening of national bonds, for moving toward the goal of self-sufficiency, for more rigorous protection. A peace which is in the nature of a truce will make this pressure stronger. A peace of understanding will strengthen the hands of those who welcome the development of foreign trade and look to it, not indeed as the panacea of peace, but as the natural and welcome concomitant of peace.

IV.— THE TARIFF COMMISSION AND THE TARIFF

It does not follow from all this that nothing at all can be done. It may not be possible — in my judgment it is not possible — to lay down now a policy of tariff reconstruction. But we can make preparation for the intelligent carrying out of whatever policy the country shall finally adopt. Precisely this sort of preparation the United States Tariff Commission is undertaking to make.

Hitherto in the consideration of tariff problems trustworthy and accurate information has often been painfully lacking. The committees of Congress have been fairly swamped by conflicting statements, on matters pertinent and not pertinent. They have heard unending testimony on both sides. They have found it beyond the limits of physical possibility to deliberate and discriminate, to separate the wheat from the chaff, to ascertain what were the unquestionable facts, still more to ascertain which facts were significant. Complete information on the contested questions has almost invariably proved difficult to obtain. Sometimes, it must frankly be confessed, information really complete may be quite impossible to obtain. No tariff commission can pretend to be a perfect and inexhaustible encyclopedia of information. And yet it may conceivably perform functions of a somewhat encyclopedic sort. Given time, organization, foresight, and

the way can be made ready for prompt and intelligent action. The existing commission has already begun the preparation of a catalogue of tariff information, and has put in charge of it a competent and trained statistician, already long experienced in the work of the Census Bureau. If time is given, and the work of the commission proves as permanent as Congress has planned it to be, this catalogue will become a handy source of reference for pertinent information on the several phases of the tariff question. The design is to have on hand in it, in compact and simple form, all available data on the growth, development, and location of industries affected by the tariff, on the extent of domestic production and of imports, and on the conditions of competition between domestic and foreign products. To gather information of this sort and to present it in usable form is far from an easy task. Like any far-reaching scheme of investigation, it cannot be carried through suddenly or quickly. But given time, the commission means to have, and to keep continuously up to date, a body of information that will be of important service in the determination of tariff policies. This much can be accomplished and surely is worth accomplishing.

Not a little has been said in discussion of the tariff situation in general and of the Tariff Commission in particular about the desirability of a scientific policy. That term should be used with caution. In the field of political and social inquiry we have not reached that stage of scientific certainty which has been reached in many branches of natural science. The principles of economics can not be laid down in such terms and with such certainty as to enable us to formulate commercial policies which rest upon settled foundations. But the term "scientific" may be used in a different sense from that in which it implies established principles and indubitable truths. In that other sense, it means simply that we shall proceed with care and method; that we shall be accurate, painstaking, discriminating, shall refrain from

guess, rumor, exaggeration, from vague and untested general statements. We proceed in a scientific way if we gather all the information we can, sift it with care, present it clearly, apply it intelligently. In this sense the operations of the Tariff Commission may fairly be expected to have a scientific character and prepare the way for a scientific treatment of tariff problems.

And in this sense we can prepare for tariff reconstruction. The task of the Tariff Commission is not to take tariff questions out of the hands of Congress, or to remove them from the realm of statesmanship. The determination of public policy in this direction, as in every other, must rest in the first instance with the legislature and ultimately with the people. Nobody, however expert, can settle, still less dictate, the position which the country shall take on controverted political and industrial questions. All that any administrative or investigating body can do is to contribute toward discriminating and intelligent discussion and action.

INDEX

PRINTED IN THE UNITED STATES OF AMERICA